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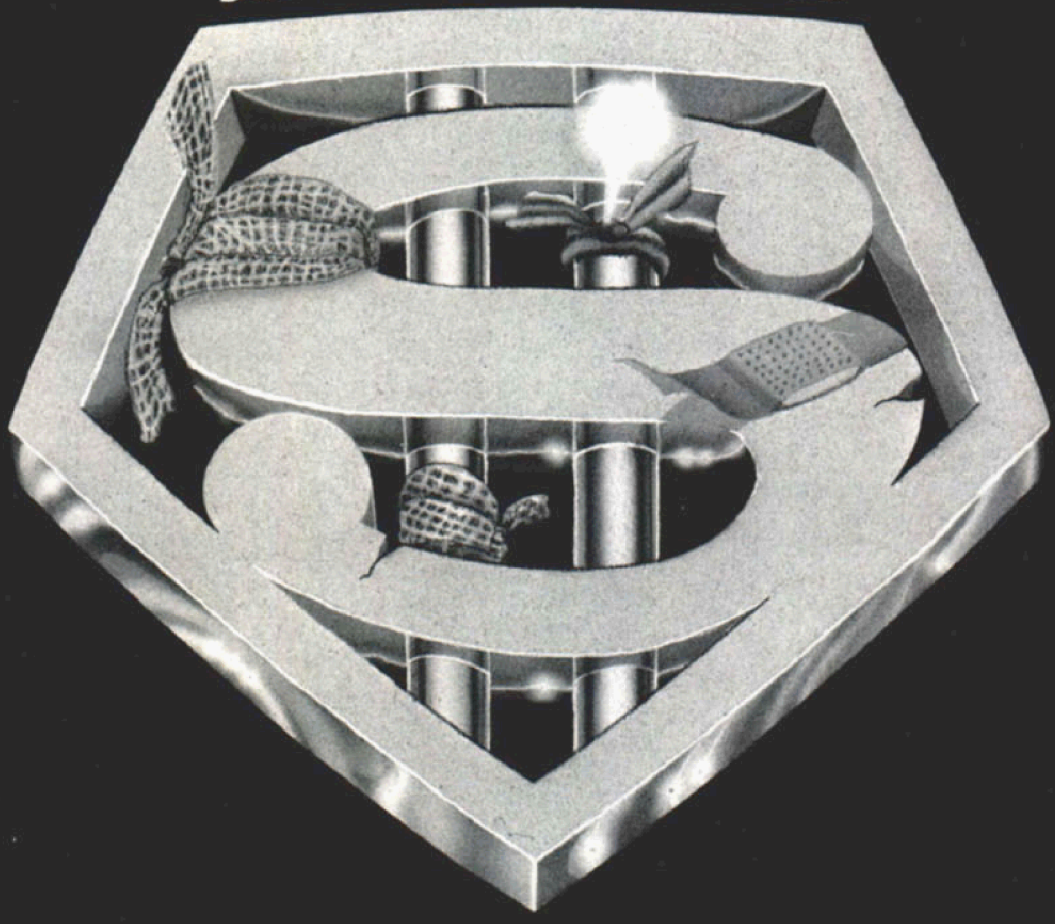

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on currency speculation

HOWARD RUFF
on surviving the collapse

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on diamond investing

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on the destruction of money

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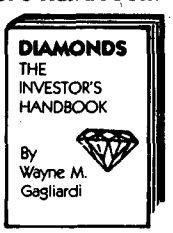

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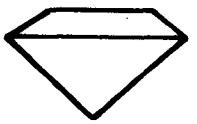

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Wage Your Own Personal Tax Revolt

Like the early pioneers who started this country, many people are rebelling against the near confiscatory taxation at all levels of government. The federal government consumes the taxpayer's cash at the rate of over $800,000 per minute, and the amount that is wasted is scandalous. The citizens are mad as hell and they're not going to take it any more.

There is but one answer left!

The U.S. was founded by a group of individuals who rebelled against the oppressive policies of King George in England. Today, this same spirit of independence, a uniquely American phenomenon, underlies a growing displeasure with government tax and spending policies. This viewpoint is a healthy sign. Our society can remain the freest and most prosperous in the world if government power is held in check by us, the citizens who make up the country. Recent passage of laws (such as Proposition 13) are an indication of a growing wave of protest against wasted tax dollars. The effort is getting stronger and more vehement every day.

The largest tax each one of us pays is Federal Income Tax. Yet, the largest corporations and the wealthiest individuals often pay the least amount of tax. According to an article in a leading newsletter, 17 huge corporations paid no federal income tax in a recent year, although they had a world-wide income of $2.5 billion. Numerous tax loopholes were used. The list includes United States Steel, Bethlehem Steel, Armco Steel, General Dynamics, Singer, Phelps Dodge, American Airlines, Philadelphia Electric and The Chase Manhatten Corporation. The burden caused by these non-taxpayers must be assumed by "somebody." "Somebody" is always the wage earner. There is, therefore, a major inequity under the law which favors the wealthy and, most especially, corporations. In America today we have what could be called a "Corporate Society."

Some individuals have become so upset with these startling inequities, they have stopped paying taxes and have in many cases even ceased to file tax returns. This approach, however, is frought with danger and has resulted in stiff fines or prison sentences when the government locates and prosecutes the courageous individuals.

You Can Become Part of "The Corporate Society"

Rather than break the law and suffer serious consequences, there is a safer and more viable alternative. You can use the same type of smart thinking as those who own and control great wealth. The big corporations are not necessarily immoral. However, they do get the best advice available on tax matters.

You, as an individual, can now use all the tax loopholes for your own self interest. Thus, you legally gain the advantages yourself as do the huge corporations. Rather than break the law, you can use it to your advantage. Perhaps the best way to accomplish this, as well as reduce your tax burden is through incorporation, the legal form of tax rebellion.

Surprisingly enough, the government encourages incorporation with a number of favorable laws, especially in the area of taxation. In fact, it is rare to find a successful individual who is not incorporated. Incorporation is favored by nearly all millionaires. It is one of the causes of wealth, not its effect. Think about it. Can you think of a single wealthy individual who doesn't own and control his own corporation? It is rare indeed. Let's face it, the first step toward achieving the American Dream in our corporate society is probably incorporation.

To add even more impetus to the idea of starting your own corporation, passage of the Revenue Act of 1978 makes incorporation the ultimate tax shelter. This act and the earlier ones close the door to practically all other tax shelters and loopholes. The tax rate on corporations (especially smaller ones) has been substantially reduced, to as low as 17%.

Favorable laws such as the investment tax credit are most helpful when buying equipment. Even if you incur losses in one year you can deduct those losses over several profitable years.

More Advantages. . .

You can set up a corporate medical plan wherein you deduct from your taxes every dollar spent on medical and dental care, drugs, and health insurance for yourself and your family. You can also get tax deductible group life insurance even if the "group" consists of only one person.

It is important to note that potential tax savings are not the only reason to incorporate. Another chief value is that it limits your liability to the assets of the corporation in the event of a lawsuit. If you do business as an individual or partnership, you can be sued personally, which could put your house and other assets in jeopardy

You can put more money (25% and more of income) into your corporation pension plan. This is more than a traditional "Keogh" plan which has a maximum contribution of $7,500 a year, or even an I.R.A., where the maximum that can be sheltered under special circumstances is only $1,750.

In these times of growing inflation and periodic ups and downs of the economy, your own corporation is probably the only way that you may maintain control over your economic destiny. And you can often benefit from incorporation without leaving your present job. More about that in a moment.

You Can Incorporate Simply, Easily and Inexpensively.

Up until now, throughout the majority of history, incorporation had one major drawback: high legal fees. Lawyers today charge stiff fees, up to $2,500 for incorporation. The truth is that you can easily incorporate yourself for under $50. A remarkably easy and inexpensive method of incorporating is contained in a book called *How To Form Your Own Corporation Without A Lawyer For Under $50.* It comes complete with all the tear-out forms required to start your own corporation . . . minutes . . . bylaws . . . everything you will ever need. The author, Ted Nicholas, has helped thousands of people start their own corporations and has saved them millions of dollars in the process – and many millions more in taxes.

It is very easy, and we will show you how. We'd like to send you a copy of *How To Form Your Own Corporation Without A Lawyer For Under $50* for a free thirty-day trial – without risk or obligation on your part. If, for any reason, you're dissatisfied, simply return it for a full refund of your purchase price. We'll also send you a free bonus: The Income Plan -- an astounding report that tells you exactly how to turn your present career into a tax-sheltered corporation. The Income Plan – a $9.95 value -- is yours to keep *absolutely free*, even if you decide to return the incorporating system.

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"Over and over again courts have said that there is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands; taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant." Judge Learned Hand

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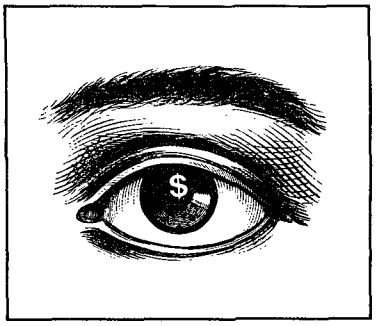

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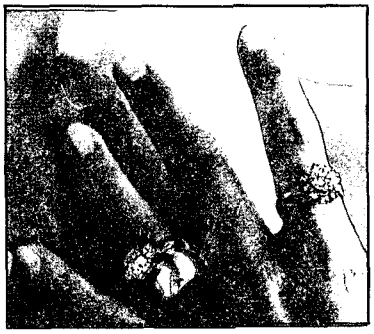

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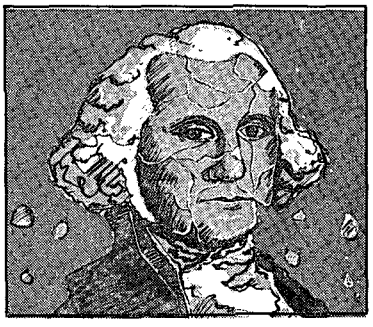

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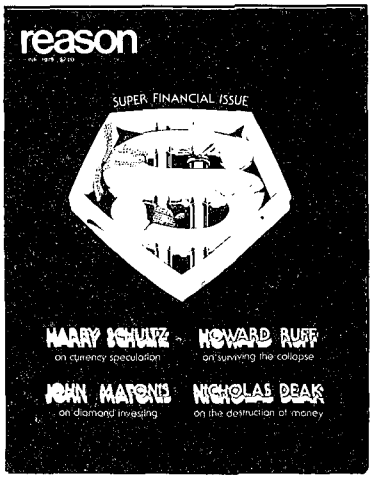

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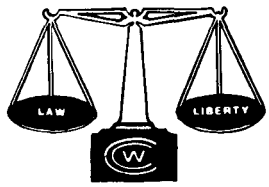

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Dr. Franz Pick warns that within 2 to 3 years the U.S. will adopt a new dollar worth 10 to 20 old dollars

Dr. Franz Pick is one of the world's most respected authorities on currency matters and precious metals. He studied currency and inflation theories at the University of Hamburg and the Sorbonne in Paris. His degrees include BS, MA, MBA, LLD, and PHD. He is the Publisher of *Pick's World Currency Report* and *Pick's Currency Yearbook*, two internationally respected publications on currencies. He is the author of 6 books on silver and gold.

Now, in an exclusive new interview with the **Silver & Gold Report**, Dr. Pick tells why the dollar and dollar-denominated investments are headed for disaster. Here are excerpts.

Dr. Franz Pick

On the Dollar

"The most serious problem we face today is the debasement of our currency by the government . . . As you can observe by looking at the official U.S. cost of living statistics, the dollar by early 1978 had been debased to less than one-quarter of its 1940 value. My own unofficial figures put the value of the dollar at around 9% of its pre-war value . . . The government will continue to debase the dollar until it is worth about a nickel. [Then it will repudiate its debts] by exchanging 20 old dollars for each new dollar. This may come as early as 1980."

On Traditional Investments

"Currency debasement destroys the value of corporate bonds, stocks, life insurance policies, annuities, and all other debt instruments denominated in dollars. We may be the richest nation in the world, but our assets are melting away before our eyes and virtually no one recognizes this fact."

On the Outlook for Investors

"[Dollar-denominated assets] will be wiped out... Many people will be ruined. I'm afraid the readjustment to real values will bring much pain and suffering."

"Gold is your best protection."
—Dr. Franz Pick

Based on his deep knowledge of money, and his first-hand experience with collapsing currencies, Dr. Pick is convinced that, despite the dollar crisis, you can preserve the value of your assets.

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Dr. Pick also shows you what forms of gold to invest in. He explains how to buy gold and legally avoid sales tax. He explains the critical mistake many investors make by taking out a safe deposit box, and tells you how to avoid it. He points out a serious danger of owning gold coins—overlooked by many owners—and describes how to avoid it, too.

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editor's notes

• **EDITORS' ACTIVITIES.** Senior Editor Tibor Machan spoke on human rights in January at Valdosta State College in Georgia, where he also conducted some classes as guest instructor and participated in a meeting of the Philosophy/Economics/Political Science club. Machan debated Roy A. Childs, Jr., editor of *Libertarian Review*, on the subject of foreign policy at the annual convention of the California Libertarian Party in San Jose in February. On April 6 and 7 Machan appeared on a panel concerned with the social issues dividing libertarians and conservatives, at a meeting of the Philadelphia Society in Chicago. Other panelists included Williamson Evers of *Inquiry*, Joe Sobran of *National Review*, and William Kristol of the *American Spectator*. Robert Nisbet of the American Enterprise Institute was keynote speaker at the meeting, and Murray Rothbard of the Cato Institute and Walter Berns of AEI gave libertarian and conservative talks, respectively. Machan and a number of other philosophers and economists, including Contributing Editor Eric Mack, participated in the May 11-13 conference, "Social Theory and Praxis," of the American Association for the Philosophic Study of Society. Machan's "The International Human Rights Muddle" appears in the May issue of *The Humanist*. For the spring 1979 term, Machan was appointed visiting associate professor in the UC Santa Barbara Department of Political Science, where he is teaching a course on democratic theory.

Senior Editor Manuel Klausner has been busy of late lending his legal expertise to the drafting of ballot initiatives. He was actively involved with CAST—the Committee to Abolish the Sales Tax—whose ballot measure has just been approved for petition signature-gathering by California officialdom. Klausner is also working with a group that is preparing a ballot measure to provide state income tax credits for those paying for the education of students in private schools. The coalition includes the Libertarian Party, the National Taxpayers Union, and private-school organizations. He also continues to lead the Libertarian Law Council, a group of Southern California lawyers and paralegals. They hold regular luncheon meetings and publish *Libertarian Law Notes*, a newsletter.

Editor Robert Poole gave a workshop in February at the California Libertarian Party convention on the future of public and private space efforts, contrasting California governor Jerry Brown's abortive space program with blossoming private ventures. On March 31 he addressed the Northwest Libertarian Conference in Portland, speaking on municipal services without city hall and participating in a panel discussion of private solutions to urban housing problems. On May 7 in Detroit he addressed the annual convention of the National Association of Regional Councils on the impact of the tax revolt on local government.

• **MEDIA WATCH.** Freedom-oriented articles continue to turn up in unlikely places. A case in point is the April issue of *Mother Jones*, ostensibly a socialist magazine, published by the Foundation for National Progress. That issue features a solid article by Michael Harris questioning the idea of compulsory education and quoting extensively from deschooler John Holt. Also in the issue is a short piece by Barbara Ehrenreich questioning the need for prescription laws and physician licensing.

The New Republic, too, has been running some provocative pieces. Besides Steve Chapman's article on bus deregulation (see Trends, May), the January 20 issue carried a long, thoughtful lead article, "Liberals and Inflation," taking liberals to task for failing to come to grips with the seriousness of this issue and for leaving the initiative to conservatives and libertarians. The February 24 issue carried Fred Singer's masterful debunking of the current "oil crisis."

And reliable *Harper's* topped its previous achievements with its April cover story—a reprinting of Andrew Dickinson White's classic recounting of the horrors of fiat money inflation during the French Revolution—complete with brilliant marginal notes by the editors. Just consider: an all-out attack on paper money by the leading intellectual magazine in America! Times *are* changing.

• **SCORE ONE!** Remember FANS—the attempt by Ralph Nader to protect "sports consumers" from the hazards of hot dogs and other perils? Mercilessly lampooned in these pages by Peter Fasolino (Apr. 1978) FANS has now all but given up the ghost. With only 1,400 dues-paying members nationwide, FANS couldn't pay the bills for its Washington office, which quietly shut down in March. Reportedly, a few die-hard volunteers will maintain an office in San Francisco.

—R. P.

Doctor who helped over 7,000 patients explains . . .

Why many people fail to absorb the vitamins they take

"80% of the people who come to me," says Dr. William Donald Kelley, DDS, nationally-known nutrition consultant, "are not metabolizing properly. They take vitamins by the barrelful, yet they just get sicker and sicker."

Dr. William Donald Kelley is a health researcher and nutrition consultant from Winthrop, Washington. He received his BS, BA, MS, and DDS from Baylor University and took post-doctoral training at several leading universities. In 21 years of practice, Dr. Kelley has designed nutritional programs for over 7,000 patients with maladies such as arthritis, cancer, heart disease, mental and neurological disorders, fatigue, obesity, etc.

Now, in an exclusive interview with the *Healthview Newletter,* Dr. Kelley reveals why he believes that 80% of the people who take vitamins do not absorb them. We asked him:

Why do people fail to absorb the foods and supplements they take? Dr. Kelley's answer:

"The small intestine gets coated with a film of mucus that blocks the absorption of nutrients. You could take hundreds of dollars of supplements a month, but if you don't get rid of that mucous coating on the walls of the small intestine, you may as well throw away the vitamins."

What is the cause of this mucous coating?

"The body puts out the mucous to protect itself from either a high acid or alkaline diet, or a highly irritating diet. The mucous could also come from homogenized milk or junk food."

But won't eating a healthy, well-balanced diet help?

"Not really. It's a shame, but no matter how good your food or how expensive your vitamins, nothing will get through unless you dissolve that mucus on the walls of your small intestine."

What does Dr. Kelley suggest?

"There is an inexpensive nutritional compound available at most healthfood stores, that will safely and quickly dissolve the film from the intestinal wall."

In the interview, Dr. Kelley tells what this supplement is, how much of it to take, and for how long.

Moreover, he gives advice on good nutrition and many specific health problems:

- ***For More Energy:*** How to choose a diet that fits your *specific* metabolism, so that you can feel your best and have the most energy.
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- ***For Stopping Colds & Flu:*** A delicious grocery store product that changes the acidity in your small intestine—making it just about impossible for germs to live.
- ***For Relieving Arthritis, Allergies, Nervousness, and Neurological Disorders:*** The discovery of a new vitamin complex that may bring relief to these problems.
- ***For Avoiding Toxins:*** Why one type of water is the only safe water you can drink.
- ***For a Longer Life:*** Why enzymes may be the key to longevity. How to get them into your diet. Two common nutritional errors that make your organs degenerate and lose the ability to repair themselves properly.

You can have a copy of this exclusive interview with Dr. Kelley *as a bonus* with a 6-month Introductory Subscription to *Healthview.*

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Rescuing the Welfare State?

editorial

It is very tempting to shout out: We told you so! REASON has for a decade been emphasizing and insisting that, in support of a free society, arguments in terms of values—normative arguments—are essential. We've never said that's the *only* kind of argument needed. Various economic, historical, psychological, and related analyses also can and must be marshaled in defense of individual liberty, and we've done our share of marshaling. But we've also made the point often—perhaps too often for some of our readers but clearly not often enough, or maybe effectively enough, for others—that on the intellectual level it must be shown that the free society is right, *morally right*, and its antagonists wrong, *morally wrong*—right and wrong in terms of what human beings can and ought to do with their lives. The free society is *the* morally superior political system, and that is why it deserves vigilant support from everyone.

In particular, we have stressed that deregulatory efforts, a species of the general effort to dismantle the growing and increasingly authoritarian welfare state, will not be intellectually successful, nor bear practical fruit, without a steady dose of consideration of values. To date most economist friends of the free society have proceeded with scant attention to, even disdain toward, this vital issue. The motivation has no doubt been the desire to protect the scientific character of economics.

In fact, however, science is not at all threatened when normative aspects of the discussion are given their proper due—contrary to fears often voiced (in private) by free-market economists. What is opposed by such an emphasis, of course, is the *un*scientific belief that economics by itself has a monopoly on problem-solving prospects in human social affairs. This belief is frequently expressed by claiming that, whereas economics is a science, ethics and normative politics must be mere "religions." For example, recently one well-known economist of the empirical/positive school of economics reportedly consigned all natural-rights talk to religion! (This is ironic, indeed, for modern natural-rights and virtually all natural-law theorizing have often been chided precisely for being all too *secular* in emphasis.)

Defenders of the welfare state, on the other hand, are far from blind to the indispensable role of normative arguments when it comes to proposing government programs. And with many people coming around, however grudgingly, to acknowledging that government regulation is economically inefficient, the intellectual guardians of our welfare state apparently feel called upon to remind the liberal faithful of the normative issues involved. In several recent issues of *The New Republic*, for example, writers have risen to the defense of welfare statism with reference to precepts of justice, fairness, kindness, and the like.

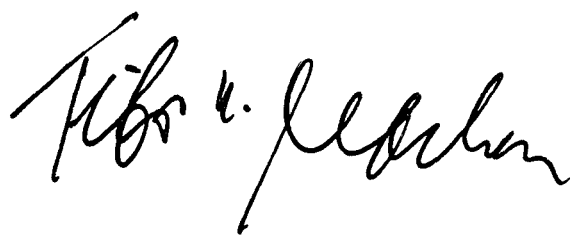
In "Defending the Welfare State" (*TNR*, Mar. 10, 1979), Prof. Glen Tinder of the University of Massachusetts, conceding the economic arguments against regulation, issues to liberals a call to arms. All is not lost, he reassures; the welfare state just needs "rethinking"—a process that "can conveniently begin with standards of justice and kindness." The economists' demonstrations that the welfare state leads to loss of wealth and welfare is to be met with the normative position that "consequences do not count, at least not decisively."

Likewise, Prof. Steven Kelman of Harvard's Kennedy School of Government offers hope to liberals if they turn from the economic to the moral issues. He addresses himself to deregulatory efforts in particular in two *TNR* pieces, "Regulation That Works" (Nov. 25, 1978) and a review of John Mendeloff's *Regulating Safety* (Mar. 24, 1979). These are both excellent from the point of view of coming to grips with just what is at stake in trying to understand a political system and recommended changes of it. Neither Tinder nor Kelman even attempts to prove the moral premises used in support of welfare statism—quite understandably. *The New Republic* and similar magazines aren't places to carry out philosophical discussions. Any attempt to do this, moreover, would expose just how indefensible, by any rational standard, is the altruistic moral position they assume.

Nevertheless, Tinder and Kelman are probably aware that they are writing in a culture in which altruism—the view that everyone's first obligation is to do well for *others*—is widely accepted by both the left and the right. For polemical purposes, therefore, the welfare state's moral underpinnings require no supporting argumentation. Moreover, economic cost-benefit analyses, which are so effective at showing the inefficiency of welfare-state policies, nevertheless offer no explicit challenge to the altruism underlying the welfare state. If anything, there is a sort of affinity between cost-benefit analysis and political altruism, since both focus on *overall* benefits rather than what happens to *individuals*.

The main point of consideration between normative defenders of the welfare state and cost-benefit analysts who find the system deficient is this: Should public policy involve a concern with justice, rights, equity, and other moral aspects of human life, or should it be dealt with as if the question "How ought we to act?" were quite meaningless? But if we, opponents of governmental paternalism, deny the importance of values, we leave the welfare statists with a very powerful weapon—an unexamined and rarely challenged answer to that question, which is in fact of concern to people. With the moral aspects of human social life cast predominantly in altruistic terms today, failure to challenge welfare statism at this level plays into the hands of its defenders.

And this is tragic. Altruism has nothing to give it intellectual support from a rational point of view (which is not to say that generosity, kindness, and charity aren't valuable aspects of human social life; it's just that these are by no means *primary* moral virtues). Altruism's weakness, however, will remain a well-kept and most destructive secret unless the approach we have stressed for a decade—careful examination of the moral bases of the free society—is introduced into the public discussion of which way our political system should be heading.



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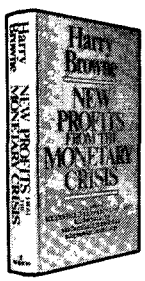

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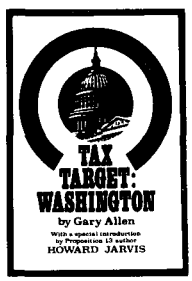
by Harry Browne $12.95 HB

In the same easy-to-follow style that made Harry Browne famous, he warns that the substantial profits once available in the gold, silver and foreign currency markets are now behind us, and shows how you can protect yourself from inflation, government interference and banking panics.



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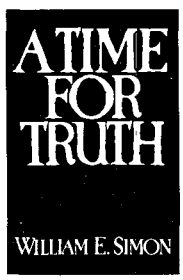

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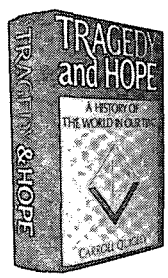

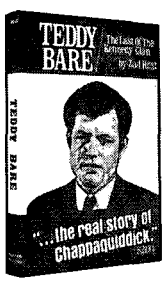

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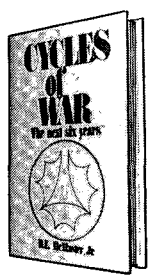

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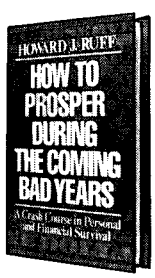

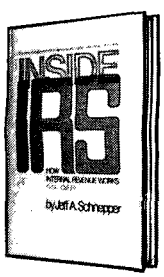

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letters

Nothing Like Silver

Dr. Vajk [April] minimizes the importance of depletion of scarce minerals such as copper, zinc, lead, mercury, silver, columbium, and tungsten. He states, "In each case technological substitutions of abundant materials are available or could be developed within the present or near-term state of the art." For certain medical uses this thesis is debatable. For example, x-ray diagnosis is indispensable for quality medical care. The amount of silver coated on x-ray film in the United States is growing and is almost equal to the amount mined. A satisfactory substitute has not been found. Since the atomic structure of each metal is unique, it seems possible that for some uses no substitute exists.

Robert A. Wilson, M.D.
Ventura, CA

Beyond Nay-Saying

I am moved to write this by the combination of the "space" theme of your April number, followed by a column by Murray Rothbard (one of your contributing editors) in *Libertarian Review*, which he subtitled "The Menace of the Space Cult." I am writing to Dr. Rothbard at REASON rather than *LR* because *Libertarian Review* follows the aggravating policy of not publishing letters from readers, and because I believe this letter will interest your readers, as well as your staff.

Dear Dr. Rothbard:

Your account of the victory over the "space cadets" at the National Committee meeting at Las Vegas was very revealing, a sad commentary on the psychology of the movement. Your disparaging remarks about libertarian utopias are appalling to those who, like myself, hope to see libertarianism become something more than an annoying bee in the establishment's bonnet.

The libertarian movement is potentially the most explosive political phenomenon of the last two hundred years, in terms of its promise of mental and material welfare all over the world. But the best theme you can offer to inspire the people who will bring about this revolutionary upheaval is "toward a three-party system"? How about a no-party system? Such lame gradualism I never expected to hear from "Mr. Libertarian." If that was the best idea offered, the meeting should have been extended until a better one was invented (postponing the convention, if need be). (How about "the future is ours," or "a free market in ideas," or "with justice for all," or "victimless government"?) I agree that it would have been a mistake to hitch the Party's wagon to any particular embodiment of libertarian ideals, such as space colonies, but there *are* good consequences of libertarian principles, and these should be advertised if the libertarians are to avoid the damning stigma attached to "nay-sayers," who have nothing to add to any discussion but wisecracks and obstruction....

To recruit people to libertarianism, what is needed is to show them what life would be like under a libertarian regime, and to let them decide that they would prefer such existence to their present one. Some popular features of any such regime would be:

1. Much less violent crime
2. Stable money
3. Cheaper and better food, transportation, postage, shoes, electronics, clothes, drugs, medical care, cars, haircuts, liquor, etc., etc.
4. Widespread technical advances (due to a better effective rate of return on capital invested in research, due to lower taxes and stable money)
5. Peace (especially after the example of the future libertarian United States is observed elsewhere).

These prospects constitute a powerful incentive to support libertarianism, an incentive which, for many, will be stronger than the prospect of merely ending a long-accustomed repression.

Certainly the socialist utopias are ludicrous, but is this because of the conditions they describe, or the inadequate means expected to achieve them? Is it possible that socialism has grown to its present mastodonic dimensions because of the

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The values taught in the Intensive — through a variety of experiential learning situations — are self-awareness, self-acceptance, self-responsibility, self-assertion, and personal integrity. These are the requirements of a healthy self-esteem.

The importance of self-esteem

Self-esteem is the experience of being competent to live and worthy of living. The level of our self-esteem is the single most potent factor in determining our effectiveness as human beings, in the areas of work, love, and human relationships generally.

Most of us know that we are not living to our potential. We would like to feel less tense, confused, frightened and guilty — and more alive. We sense within ourselves the capacity for greater creativeness and greater happiness in romantic and family relationships than we have ever experienced.

SELF-ESTEEM AND THE ART OF BEING aims at putting us in contact with our own highest possibilities. It operates in an atmosphere of warmth, respect, and great regard for human dignity.

Nathaniel Branden is the author of *The Psychology of Self-Esteem, Breaking Free,* and *The Disowned Self.* He is in private practice in Los Angeles, is Executive Director of the Biocentric Institute, offers training to psychologists, psychiatrists and other mental health professionals, and conducts INTENSIVES in major cities throughout the United States.

Learning to honor ourselves

"Self-esteem comes from refusing to live lies or to fake who we are," holds Dr. Branden. The distortion of our reality — the denial of our perceptions and feelings — begins in childhood. Fortunately, we do not have to be stuck there.

Most of us carry within us a good deal of buried childhood fear, anxiety and pain that obstructs our life as adults. Through confronting and re-experiencing these feelings we can learn to let go of them — to break free. We can accept the words of James Thurber: "Let us not look back in anger, or ahead in fear, but rather around in awareness."

Learning to hear — and love — the music inside of us

The art of being is the art of knowing and accepting who we are, at every moment of our lives. It is the art of awareness without denial or avoidance. It is the knowledge that we do not exist to fulfill anyone else's expectations or demands. It is the ability to relax into the fact that our lives are our own to live and that the responsibility for our happiness is ours to take.

Why the Intensive works

"It is not simply the nature of the experience, but the particular focus distinctive to Nathaniel Branden's work: his ability to create a world in which people feel it's right to be at their best; his focus on the fundamentals of our experience as human beings, our sense of ourselves and our desire to get the most out of life; his integration of our physical, emotional and intellectual selves; his knowledge that we grow by experiencing and that we need understanding of our experience for it to be clear and lasting; and the example he provides by the intensity of his own commitment to life."

Reason Magazine,
Dr. Cheri Adrian

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appeals made in its name for the roseate future, rather than because of its moral foundations? Must we renounce these dazzling visions now that we have found in libertarianism an effective means to realize some of them? I hope we do not renounce them, for the future is dim for any movement unable to rise above name-calling and I-told-you-so's. The "army" of the revolution needs more than snipers to carry the day.

Mike Lenker
Houston, TX

Opt Out

Switzerland is the only country in the world whose inhabitants are genuinely free people. Their social order is characterized by the absence of what, in all the other countries, is the government—republican, democratic, socialist, communist, monarchical, etc., etc. The Swiss do not delegate—nor would they countenance any arrogation of power which an individual can, or should, exercise for himself. They have no president or equivalent, nor any social setup that goes with it.

Why not emulate this shining example, now more than 500 years old? And do it on a purely individual basis? The way to bring it off is simplicity itself: give up your citizenship.

What does "citizenship" do for you as an individual? Can you name one single feature of citizenship—US, USSR, British, Bengali, Hottentot, etc., etc.—that is worth having, or that you could not do without?

If you adamantly refuse all its "privileges," you will knock out all and sundry grounds and/or pretexts for its "obligations." No crime that, and never mind what anybody else may do or say. Nobody, but nobody can inflict any punishment on those who, in good conscience, refuse to remain members and/or supporters of any of the going political regimes.

A decent regard for the opinion of mankind may call for a renunciation of citizenship in public. The "practical" and "legal" aspects of such a separation would be adequately covered by a simple notice to his (her) local newspaper, such as: I am formally giving up my _____ citizenship, in order to fully and permanently dissociate myself from the going social order.

Let the implications stand for what they may. You cannot be brought to court for it, and your example may inspire others to join the movement, toward a "social" order equivalent to that of Switzerland.

C. L. Janik
Sedona, AZ

Nostalgia

I was very pleasantly surprised to see and read in your March issue the article by Bruce Lagasse on the old movies. It brought back a lot of memories for me, having seen most of the movies reviewed.

Bravo for publishing it! Let's have more of the same nostalgic bits of trivia for the over-"50" crowd.

Thanks again. I enjoy all of your articles.

Dora Gould
Sacramento, CA

Bring on the Romance

What good fortune that I should find in your august pages [March] the article on romantic films written by admitted avowed romantic Bruce Lagasse.

I'm one of those who, with a few exceptions due to individual differences, shares

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1 Soup base chicken

TVP - Textured Vegetable Protein
4 Beef; 2 Chicken; 2 Ham; 2 Plain

GRAINS
3 Cereal fruit nut
1 Cornmeal
18 Flour (white or whole wheat)
1 Macaroni
1 Oats, quick
1 Peas, split
1 Popcorn
2 Rice
1 Spaghetti
1 Wheat, cracked

MISCELLANEOUS
3 Shortening
3 Margarine
6 Sugar

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1 Baking soda
1 Bell peppers
1 Cornstarch
1 Onions, chopped
1 Pepper, whole black
1 Salt

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his taste in movies—and I would like to see more MORE MORE, or at the very least more.

A twisting force applied ever so subtly to the author's arm in the direction of a sequel would be much appreciated by this reader.

Thank you for whatever you can do to bring it about.

Ellen Baker
Santa Monica, CA

Romantic Sins

Being a firm believer in the maxim "To each his own," I hesitated to criticize Bruce Lagasse's taste in romantic screen art [March]. Being somewhat of an egoist and a movie nut, however, I will.

It's not Lagasse's list of suggested old movie greats that prompts me to disagree, but his occasional sins of omission. For example, he recommends *Spellbound*, an overrated piece of Freudian fluff, while ignoring Hitchcock's best and most enjoyable films: *Strangers on a Train, Vertigo,* and *North by Northwest*, in my opinion possibly the best movies ever made.

He includes *High Noon* and *Shane*, but not the classic westerns of John Ford, notably *The Searchers, Stagecoach,* and *She Wore a Yellow Ribbon*, or of Howard Hawks, notably *Red River.*

He lists *The Magnificent Seven* but not the immensely superior Kurosawa film *Seven Samurai* which inspired it. Lubitsch's delightful *Ninotchka* is recalled, but not his even more delightful gem *Trouble in Paradise.*

And what about George Pal's entertaining science fiction fantasies *The Time Machine* and *The Naked Jungle*? Or Walt Disney's lavish period productions of Jules Verne's *Journey to the Center of the Earth* and *Twenty Thousand Leagues under the Sea*? Or Kubrick's moving anti-war and freedom epics, *Paths of Glory* and *Spartacus*?

Then there's *The Manchurian Candidate, The Crimson Pirate, Pygmalion, The Hunchback of Notre Dame*...I could go on forever.

But I won't.

Michael Grossberg
Austin, TX

Movie Musts

I won't belabor the inadequacy of Mr. Lagasse's list of romantic films; space limitations obviously preclude REASON from becoming an alternative to the *TV Guide* and the *New Yorker.* I agree with most of his choices, have reservations about some, and disagree with him on two or three of the films. For example, I consider *The Fountainhead* one of the worst films ever made; it is entirely miscast, poorly directed and badly edited. Cooper is too wooden as Roark, Neal as Dominique is psychotic, and Massey as Wynand is a ham. Possibly the only decent characterization in the film was done by the actor who did Toohey; his menacing attributes were subtle and suave and the sole instances of professionalism throughout a surrealistic nightmare of deliberately overdone clichés. The film is so bad that I'm almost embarrassed to see it shown....

On the other hand, I'd like to recommend a few other films which belong on a list of romantic films: *The Browning Version, Hobson's Choice, The Man in the White Suit, On the Waterfront, The Hunchback of Notre Dame* (1939).

Then there are films which skirt a romantic definition, i.e., whose stories concern individuals whose latent integrity or capacity for values would never be tested or even be known unless they were placed in unusual, interesting circumstances. *The Big Clock, Guns at Batasi,* and *North by Northwest* fall into this category.

Finally, there are films whose quality in

(Continued on p. 60.)

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brickbats

☐ **A new and inspiring** Horatio Alger tale has surfaced in this bounding land of opportunity we call America. A 56-year-old retired naval hero, Robert Earl Lee, has found his way to fame and fortune the hard way in the Montgomery County, Maryland, Environmental Protection Department. Overcoming his humble Anglo origins, Mr. Lee has now become Señor Roberto Eduardo Leon by virtue of a legal name switch. The paperwork has skyrocketed the $27,857-a-year civil servant from the lowly 01-white classification to the esteemed 03-Hispanic caste. He is now eligible for promotion over less-enterprising white-male coworkers. Some remain skeptical that such overnight success could come to one of such seemingly ordinary genetic origins. Requests have come forth from fellow employees that Sr. Leon "take a blood test." And so this story of rags to riches may await the verdict of the medical lab.

☐ **One of the wettest** political boot-licking contests in the history of the Republic has ignominiously faded away. Don't ask who won the special election to fill the late Congressman (and Jonestown booster) Leo Ryan's expense account; simply be thankful that we won't have to witness further the three simpering hopefuls who made even the current batch of Washington mountebanks look dignified by comparison. Misty-eyed remembrances of the martyred statesman dripped from every speech in the campaign downpour; one press source claimed to have counted the congressman's name displayed 17 times in just one 20-minute campaign speech, and this was considered only average glad-handing. The media characterized the race as the "Leo liked me best" contest, and the contestants had no shame in hoisting out special connections to their departed hero. A "plain talking lawyer," George Corey, ran on his newspaper label as "a close family friend"; Corey had been called in by an aide to arrange Ryan's funeral and had never been friendly with Ryan until *after* he died. Ryan's administrative assistant, Joe Holsinger, couldn't bear to disappoint the late congressman's family, who, he insists, insisted that he "continue the job Leo was doing." But save your hanky for Ms. Jackie Speier, who raised sea level three inches with her tale of Guyana and the honorable Ryan's death-bed wish. As the slain man lay in her arms muttering his last, he thoughtfully remembered Ms. Speier's career and asked her to "take over for him." This translated, naturally, into running for his vacant seat. No witnesses were present besides the political aspirant, but I plan to check it all out with Mr. Ryan just the minute I get inside those pearly gates.

☐ **The progressive state of Iran** continues to befuddle progressives not of the Islamic denomination. In fact, the ERA seems to be faring even worse there than here. Feminist yell-king Kate Millett was so outraged over the Ayatollah Khomeini's directives that women should, in effect, be seen only somewhat and heard not at all, that she risked being strung up by her unpainted thumbnails to holler for women's rights in Iran. Ms. Millett charged tens of thousands of liberated upper-class women to march in the streets of Teheran. But the ayatollah was unmoved by the cries for equality. His predictably sexist response was to order that all revolutionary police hold their fire and take care to treat the perfumed protestors gently and with respect. No executions were ordered for organizers of the female insurgency, and flowers may even have been sent to the comelier ones. Total liberation was accordingly retarded.

☐ **The war between the sexes** took a different swish in San Francisco's famed Tenderloin district. When a 240-pound lady hold-up artist tried to pull a job on a well-populated gay bar, she was rudely bopped on the noodle by one customer with a tastefully chosen flower pot and then sat upon by four others who gleefully held her squirming pudginess until the uniformed police could take over. Gay Power!

☐ **Only the facile mind** of an accountant gone berserk could account for the Moslem rebels in the Philippines who backed down from their initial ransom offer of $68,000 to free the Rev. Lloyd Van Vactor of Spearfish, South Dakota. In lieu of the whole big sum, they offered to settle simply for "reimbursement of expenses." The rebels, who presumably saved all of their receipts, incurred the cost of several outboard motors and seven fatigue uniforms in the operation. Brickbats has asked to see an itemized bill, as it is unknown whether entertainment expenses and the notorious three-martini lunch will be included. Barring tax reform, all these costs should, at any rate, be deductible.

☐ **Retired postal worker** David Berkowitz has decided to squeal. The convicted mass murderer has startled the judicial establishment by putting the finger on his accomplices *after* the fact—the shrinks who declared him mentally incompetent. The psychiatric "verdict" was the result of Berkowitz's crazed hollerings about talking dogs, demonic possession, and orders from Mr. Satan. "I made it all up via my wild imagination," smiles the killer, who must remain a little surprised that the learned medicine men fell for the old "devil made me do it" scam to begin with. Not so syndicated columnist Georgie Ann Geyer: "His psychiatric report disclosed that Berkowitz, 'as a result of mental disease or defect, lacks the capacity to understand the proceedings against him or to assist in his own defense.' He was 'so emotionally dead that the outcome of this case is totally immaterial to him.' He was 'unfit to stand trial.'

"One has to wonder how much longer we are to be taken in by the psychiatric argument in crime? Every day brings evidence of criminals knowing well how to use all the multiple 'outs' of our sieve-like criminal-justice system."

☐ **The US House of Representatives** has increased the yearly bank account of the Rules Committee from $19,500 to $519,000. The 2,500 percent budget increase was for the purpose of undertaking studies of "governmental efficiency" [*sic*].

☐ **Also doing well** is Police Chief Paul Arritola, 38, who earned $102,117 last fiscal year. The town employing Chief Arritola—Jordan Valley, Oregon—has only 210 residents. Yet it is located on the highway linking Boise, Idaho, and Reno, Nevada. And all speeding tickets are made payable to the Honorable Arritola, who will soon stand trial for "tampering with public records and making false statements on official documents." A more noble Oregon accomplishment was the state's landmark legislation aimed at cleaning up our human-contaminated environs. Always a leader in the effort to protect the ecology from man, woman, and child, they have now struck a blow to protect Mother Nature from rapacious infant-polluters: disposable diapers will be contraband in the state of Oregon at midnight this very New Year's Eve. Cheers!

—Thomas Winslow Hazlett

trends

Dumping Delaney

The rigid law that requires the Food and Drug Administration to ban any food additive shown to cause cancer in any test animal in any quantity—the Delaney clause—may be on the way out. It has recently come under attack from three different quarters.

The first blow came from the FDA itself. While not calling for outright repeal, FDA commissioner Donald Kennedy said in February that the agency thinks Delaney should be relaxed, as should other restrictive pure-food laws. One proposal being explored by the agency would provide for balancing health benefits against risks—something the FDA is not presently allowed to do. That would permit more sophisticated judgments about the "acceptable risk" level of such possible carcinogens as saccharin and nitrites. But the FDA, of course, has no intention of relinquishing the power to ban any substance that *it* judges to have risks exceeding benefits. As far as Kennedy is concerned, that would be the case for saccharin. Although diabetics and the overweight claim health benefits from the substance, that claim has never been proven scientifically, he says. Hence, it should be banned.

A very different view of where the burden of proof should lie was put forth in March by the American Council on Science and Health. Reviewing all available human and animal studies, the group's scientists concluded about saccharin that no risk to humans has been proven. Hence, it should *not* be banned. At a press conference in Washington, ACSH director Elizabeth Whelan summed it up: "People are tired of having things taken away from them for no good reason. Saccharin poses no known hazard to human health and should not be banned." ACSH is therefore placing itself firmly in the anti-Delaney camp.

A third voice was heard from several weeks later—this one potentially carrying the most weight. A special panel of the Institute of Medicine and the National Academy of Sciences delivered its long-awaited assessment of food safety laws. (The review had been asked for by Congress in 1977 when it delayed the FDA's proposed saccharin ban.) Pulling no punches, the group's report called present food safety laws "complicated, inflexible, and inconsistent" and urged their complete overhaul. Besides repealing the Delaney clause, the revisions would permit the FDA to balance against health risks, not merely health benefits, but also economic benefits.

Under these conditions, the FDA would place more emphasis on warning labels, logos, and educational campaigns, relying more extensively on consumer awareness and intelligence. According to *Science*, this would "constitute a significant return to the philosophy of caveat emptor."

Actually, the report does not go that far, since it still leaves ultimate decision authority (and coercive power) in the hands of the FDA. Nevertheless, it is a significant step away from paternalism and toward individual sovereignty. "What the IOM-NAS panel has apparently decided," wrote an incredulous *Science* reporter, "is that if the consumers of America—who so vocally expressed their demand to consume a nonnutritive carcinogenic sweetener—want to consume a host of hazardous foods, well then the federal government ought to let them." In the old days they called that liberty.

Rail Deregulation on Track

The federal government is finally biting the bullet on railroad deregulation. Nearly a decade after the Council of Economic Advisors first proposed deregulating surface transportation, the Carter administration has sent to Congress a bill calling for substantial deregulation of the nation's railroads. What has finally made the idea politically palatable is, first, the specter of continually increasing government subsidy (and possible nationalization) if the railroads continue as they are and, second, the overwhelming success of airline deregulation.

The railroad deregulation bill would do the following:

- During a five-year transition period, give railroads considerably more freedom to raise and lower rates
- Abolish rate regulation entirely after that time
- Permit railroads to abandon branch lines that don't pay for themselves
- Remove antitrust exemption for joint railroad rate setting
- Remove rail mergers from ICC scrutiny.

Just two weeks before the administration proposal was introduced, the Association of American Railroads came out

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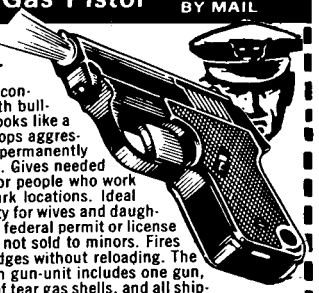

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with its own plan. Not an attempt to stave off deregulation, the AAR proposal parallels that of the administration, except on antitrust immunity. A "substantial majority" of member railroads approved the plan, apparently willing to give up ICC protection from competition in order to get out from under ICC control.

With strong industry support, the only opposition is likely to come from representatives of small towns and some shippers, who fear, respectively, loss of service and higher rates. But according to an administration spokesman, many shippers are coming to realize that under regulation the railroads are "progressively cannibalizing" themselves. If they want *any* decent level of rail service, they must be willing to support an environment in which railroading is profitable—and that means a free market.

Air Deregulation Keeps on Winning

America's first large-scale experience with deregulation continues to demonstrate the benefits of competition. In March four airlines announced path-breaking new low-fare coast-to-coast service. Texas International will offer service between Los Angeles and Baltimore-Washington for $198 roundtrip—with no requirements of advance booking or minimum or maximum stay. Normal coach fare is $428. A limited number of low-fare seats will be offered on regular flights, but TI will also offer a "red-eye" nightcoach with all seats at the low fare. World Airways announced a low-fare service linking Los Angeles and Oakland with Newark and Baltimore—for $108 one-way. The fare will be available on every seat, every day, with no advance-purchase requirement. Two other carriers, Capitol International and Trans International, announced similar low-fare coast-to-coast scheduled service.

One of the unresolved questions of airline deregulation has been whether state public utility commissions could continue to regulate the in-state operations of interstate carriers. The Airline Deregulation Act of 1978 said they could not, but California's PUC (alone among state commissions) disagreed and began vetoing fare increases. Eleven airlines sued it, and on March 12 US District Judge Spencer Williams agreed with them. At press time, however, the PUC was reportedly planning to appeal.

What about the fear that small communities would be abandoned as airlines rushed to "skim the cream" off profitable big-city routes? So far, it isn't happening. Although service at some points has decreased, most small cities now have the same or even more flights. A survey by the CAB's Bureau of Pricing and Domestic Aviation found that, among the nation's smallest commercial airports, air service increased overall by 5.2 percent during the past year. Aircraft operations increased or remained the same at 459 of these cities; decreases occurred at only 218 (with an average reduction of 21 percent in daily departures). Flights between small cities and medium-sized hub airports like Portland increased 13 percent, and flights between small cities and major hubs like Chicago increased 9.2 percent.

And deregulation is now extending overseas. The Australian government—long a hold-out against increased competition—has given up and agreed to an increase in carriers between Australia and the United States. The CAB is refusing to approve air-service proposals from governments—such as Canada and France—that adopt anticompetitive postures like vetoing US airlines' low-fare proposals. Where governments are more enlightened, the CAB is approving major increases in service—such as the 15 US airlines newly authorized to serve the Benelux countries. And now comes a report that the British Civil Aviation Authority is studying deregulation of that country's airlines.

Clearly, airline deregulation is taking off.

Criticizing the Bank Regs

Hard-money advocate Howard Ruff (see p. 34) made what he thought was an innocent remark about the safety of banks—and found himself threatened with legal action. On his TV show "Ruff House" he pointed out that the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation have enough funds to cover only about 1.3 percent of all bank deposits. That didn't sound like enough to him, and he told his viewers, "I think I'd rather be out of the banking system."

What should appear in Ruff's mail a few days later but a letter demanding an explanation, from an officer of the Federal Home Loan Bank Board. It cited a 1938 law that makes it a *federal crime* to question the solvency or financial standing of the Federal Savings and Loan Insurance Corporation. Ruff, of course, refused to reply, on First Amendment grounds, but at press time the Bank Board was still looking into the matter.

But criticism of federal bank regulation can't be stilled that easily. A few weeks later attorney Robert Gnaizda was heard telling Congress that banks should have signs on their doors reading, "Warning! Savings may be hazardous to your wealth;

if left long enough, more than half of your money may be eroded." Gnaizda's target was federal interest rate ceilings on passbook accounts, limiting them to 5 or 5¼ percent "despite an inflation rate of approximately 10 percent." The lawyer's firm, Public Advocates, Inc., has filed a class-action suit against the government on behalf of the Gray Panthers and other small savers. And if the government does not act, he warned, "We believe Americans should and will take personal action to issue their own money market certificates."

In response to this pressure, officials of the Interagency Coordinating Committee —a group of banking and thrift regulators—were prepared to approve issuance of a new two-year $5,000 T-bill certificate (present certificates are $10,000 denominations). But at the last minute who should intervene but—you guessed it—the Federal Home Loan Bank Board. So small savers are still left out in the cold by government policy.

Feds Attack Postal Monopoly

Two powerful federal agencies have accused the US Postal Service of trying to extend its monopoly on letter delivery. Both were referring to the efforts of the postal service to get a foothold in the electronic mail business. Last December it proposed revising the private-express statutes to broaden its monopoly—among other things by requiring stamps to be placed on the hand-delivered hard copy resulting from new forms of electronic message services. And it has put forth a plan to begin offering its own Electronic Computer Originated Mail, aimed at large corporations.

That was too much for the Federal Communications Commission, which has increasingly become an advocate of competition. FCC general counsel Robert Bruce has informed the USPS that the FCC, *not the mailman*, has jurisdiction over electronic messages. The USPS proposal would "significantly thwart the FCC's recent efforts to stimulate new electronic message services by opening competition in the public message telegraph field, and is likely to increase the cost and reduce the quality and diversity of such service."

Taking a similar position was the Justice Department. In its response, the department's Antitrust Division said the USPS proposals were designed "to prevent the erosion of a monopoly which today is clearly threatened with commercial obsolescence." It urged the postal service to withdraw the proposed expansion of the private-express statutes, to consider competitive factors and public input (including that of potential competitors) in making future policy, and to drop its regulation classifying certain magnetic data storage devices as letters. "The efforts of the postal service to expand a monopoly conferred in 1872 to encompass computer data processing and components of new telecommunicating systems are a matter of serious concern," its brief said.

Fraud upon Fraud

So you think the federal government will spend $532 billion this year? Employ 3 million people? Run a deficit of $29 billion? Maybe you believe in the Easter Bunny, too? Although all the preceding are official figures, all are grossly incorrect as measures of actual federal government activities.

To begin with, economist Art Laffer pointed out recently, *real* federal spending—including off-budget agencies ($12 billion), interest rate subsidies in federal loans ($16.8 billion), unfunded interest on Social Security liabilities ($262 billion), and other examples of "creative accounting"—totals something like *$900 billion.* And the annual deficit works out to a cool $300 billion, not the reported $29 billion.

That's not the only fraud. Although there are "only" 3 million civilians on the direct federal payroll, there may be as

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many as 3 million other people—in universities, consulting firms, and state and local governments—whose salaries are paid by the federal government. HEW, for example, pays the salaries of 980,217 such persons, dwarfing its own payroll of a mere 144,256. The Defense Department pays 2,050,000 consultants and others, besides its own 2,049,000 employees. These figures were uncovered by UPI reporter Donald Lambro and presented in the winter issue of *Policy Review*.

Lambro is also the author of a UPI analysis of waste and fraud throughout the federal government. Combing the files of federal agencies and utilizing audit reports from the General Accounting Office, Lambro's team concluded that between $38 billion and $50 billion of the federal budget is lost, stolen, or wasted each year. That's nearly 10 percent of the official federal budget. Among the biggest losses are about $6 billion a year in HEW (the agency's own figures) and another $15-$25 billion in federal economic assistance programs.

The UPI figures were recently confirmed by the Justice Department. Deputy Attorney General Benjamin Civiletti told the Senate Budget Committee that as much as 10 percent of the federal budget is wasted or stolen each year. Fraud and abuse are so pervasive that they are found "wherever we look deeply," he said. Added GAO head Elmer Staats, because there are so many federal agencies and programs, "indications are that waste, fraud, and abuse are of mammoth proportions."

Thus, it looks as if the widespread feeling among taxpayers that they're being ripped off is right on the mark.

Scientists Boycott Soviets

One of the ways the Soviet Union's authorities attempt to compensate for the failures of its economic system is to utilize Western science and technology. And American scientists have generally been willing participants, because of their respect for individual Soviet scientists and the ideals of international cooperation across political boundaries.

But there are limits, and one of them appears to have been reached. On March 1, representatives of 2,400 American scientists held a press conference in Washington to announce the formation of Scientists for Orlov and Shcharansky (SOS). More than 70 percent of SOS members have signed a pledge "to withhold all personal cooperation with the Soviet Union until Orlov and Shcharansky are released." The other members have committed themselves to boycotting international conferences in the USSR, to opposing the enlargement of US-Soviet exchanges, and to campaigning against the transfer of sophisticated technology to the Soviets.

Soviet scientists Orlov and Shcharansky were sentenced to long prison terms last summer for monitoring the USSR's (non)adherence to the Helsinki accords. Since that time several international scientific meetings in the USSR have had to be canceled because of nonparticipation by Western scientists, and others have had greatly reduced attendance. The Council of the 40,000-member Association of Computing Machinery has decided "not to cooperate with or cosponsor any meetings held in the USSR."

But SOS is the largest and most distinguished group of individuals to take strong action; its members include 13 Nobel laureates and 113 members of the National Academy of Sciences. SOS organizer Kurt Gottfried of Cornell noted that the scientists were curtailing their contacts "with the greatest reluctance, but the actions of the Soviet government appear to leave us no other alternative." Added Nobel laureate biochemist Christian Anfinsen, "The Orlov and Shcharansky cases were the last straw."

Unsubsidized MDs—for the Wrong Reason

HEW secretary Joseph Califano has proposed that the federal government stop subsidizing medical education by means of "capitation grants"—payments to medical schools based on the number of students enrolled. Although the amount involved is relatively small ($83 million), it's yet another example of the proliferation of government subsidies.

Since it began in 1966, the subsidy of medical schools has had its intended effect: the number of medical graduates rose from 8,148 in that year to 14,969 in 1978. And 28 entirely new medical schools have been built, to take advantage of the federal gravy train. Although the funds account for only three to eight percent of medical school budgets, they have come to be considered a necessity by school officials.

So now cries of outrage are being raised by the schools and their defenders. Many are focusing on the speciousness of Califano's arguments. The HEW secretary contends that America now has an "oversupply" of doctors, that each extra physician adds $300,000 per year to the nation's medical bills, and that reducing the number of physicians will lead to reduced health care costs. Although this is obvious nonsense, that in no way justifies subsidizing the education of *doctors*, who, after all, end up among the highest-paid of all

Americans. One hopes that the secretary's proposal will be adopted, while his rationale is laughed into oblivion.

New Air Bag Hazard

Besides the many safety problems inherent in the use of air bags in cars, there's a possible health hazard as well. So reports *Phoenix Quarterly*, journal of the Institute of Scrap Iron and Steel. It turns out that the scrap industry has been looking ahead to the problem of disposing of junked cars containing unfired air bags. The planned propellant in the bags is sodium azide—a suspected mutagen (and therefore 85 to 90 percent likely to be carcinogenic as well). "One part sodium azide per million parts of air has produced a toxic response in test animals," admits the National Highway Transportation Safety Administration—"a rapid change in blood pressure followed by convulsions, followed by death."

What's going to happen to the sodium azide when the cars are converted to scrap? wonders the industry magazine. Not only might it accumulate in the adjacent soil and water, it might also explode. In contact with copper, it "is more explosive than nitroglycerin," says the National Institute of Occupational Safety and Health.

How serious are these threats? Nobody really knows, least of all the Congress, which passed a law requiring installation of air bags or automatic seat belts on all cars by 1983. We may have on our hands another fiasco like Tris.

Social Security Blues

A nationwide survey reported here last month identified Social Security "contributions" as the most despised tax in America—the one people view as giving them the least for their money. Now comes another survey that helps explain why that may be.

The actuarial and consulting firm of Johnson & Higgens sponsored the new survey, conducted by Louis Harris, which focused specifically on Social Security and pensions. The principal finding was that Americans today—in contrast with 10 years ago—place much more faith in private pension plans than they do in Social Security. Fully 80 percent doubt that when they retire the latter will be able to pay them all the benefits it has promised, and *over half* have "hardly any confidence at all." If given the chance, about one-third of today's active employees would opt out of Social Security entirely. And that's without any sort of campaign for, or proposal of, a replacement plan. People have simply figured out for themselves that it's a bad deal. (See "The Great 1979 Social Security Heist," REASON, Feb. 1979.)

On the other hand, 76 percent of those covered by private pension plans are basically satisfied with them, and over two-thirds are highly confident that when they retire they will receive what they were promised. It's a startling contrast.

Worldwide Retreat from Socialism

Throughout the industrialized Western world, the trend is on toward reductions in State ownership, controls, and spending, with a concomitant increase in incentives for private investment. Unlike the United States, where expenditure cuts have come in response to grassroots anti-tax movements, overseas the cuts are coming from the top down.

In part the changes result from studies on the effects of massive government spending. Oxford economists Walter Eltis and Robert Bacon have found evidence that public-sector spending cripples economic growth rates by cutting private investment and therefore the crea-

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tion of new jobs. Similar conclusions have been reached by the Hudson Institute Europe and Britain's National Westminster Bank. Adds Jean-Pierre Poullier of the Organization for Economic Cooperation and Development, "Governments are recognizing they can't have economic recovery without incentives to investment, and one of the best ways to do this is to shift away from the government sector."

And these shifts are taking place all across Europe. Sweden, Austria, Norway, and Finland had substantially lower government outlays in 1977 and 1978. The Netherlands government is cutting spending by $5 billion over the next three years and limiting borrowings to 4.5 percent of the national income. The French government has abolished World War II price controls, sharply reduced industrial subsidies, and encouraged individuals to buy shares of stock in industry. Despite some fierce worker opposition, the program seems to be working: the franc has stabilized, foreign investment is up sharply, and 7,000 workers have become first-time stockholders. Ireland has cut corporate taxes drastically (from 45 percent down to 10 percent) and has increased tax holidays for new plants.

And the desocialization extends beyond Europe. The government of British Columbia is proceeding to transfer ownership of State-owned resources to the people. Every adult citizen is to be given five shares of stock in the government-owned B.C. Resources Investment Corporation, effectively transferring it from the public to the private sector. Says Premier Bennet, "This is the commitment of our government to individual ownership rather than socialism or government ownership."

The Australian government of Malcolm Fraser continues its efforts to undo the socialist policies of its predecessor. Explicitly rejecting Keynesianism, Fraser's government is holding down spending despite strong political pressures to do otherwise. Inflation has thus far been cut from 17 percent in 1975 to 7.5 percent last year; Fraser's goal is 2.5 to 3 percent. Private investment, scared off by the socialists, is coming back, and free-market pricing is spurring new energy exploration.

Even Brazil, a tightly controlled "state capitalist" system, is beginning to loosen up. The new government of Gen. Joao Batista Figueiredo is cutting back subsidies and import duties and reducing other controls. The federal budget is being cut by $2 billion (six percent), and parts of the huge State-owned mining, energy, trading, and transportation companies are to be sold off.

If political pressures don't nip these welcome trends in the bud, the world will witness a valuable lesson in the merits of substituting freedom for controls and private for public.

Milestones

• *Spending Limit.* Californians may do it again. Paul Gann, cosponsor of last year's Proposition 13, has just succeeded in obtaining over 900,000 signatures (far more than the 554,000 required) for an initiative to limit government spending. The measure would hold city, county, special district, and state government spending to their 1978-79 levels, adjusted for cost-of-living and population changes. "The real meaning of Proposition 13 is being prostituted right and left by local government," said Gann, in explaining the need for the measure.

• *Guidelines Rejected.* A major corporation has announced it will ignore the government's wage and price guidelines. Jan Van Andel, chairman of Amway Corporation, said, "We have elected not to [comply] because we feel government is the root of inflation.... Unchecked inflation eats at the very vitals of a free society. The solution is simple: stop deficit spending." Amway had sales of over $350 million last year.

• *Brewing Rights.* No longer is it legally required to register your home brew with the government. Congress changed the law last fall, freeing individuals to make beer and wine at home without permission and without having to be head of a household. You can even take it elsewhere without government permission—as long as it is for "personal or family use."

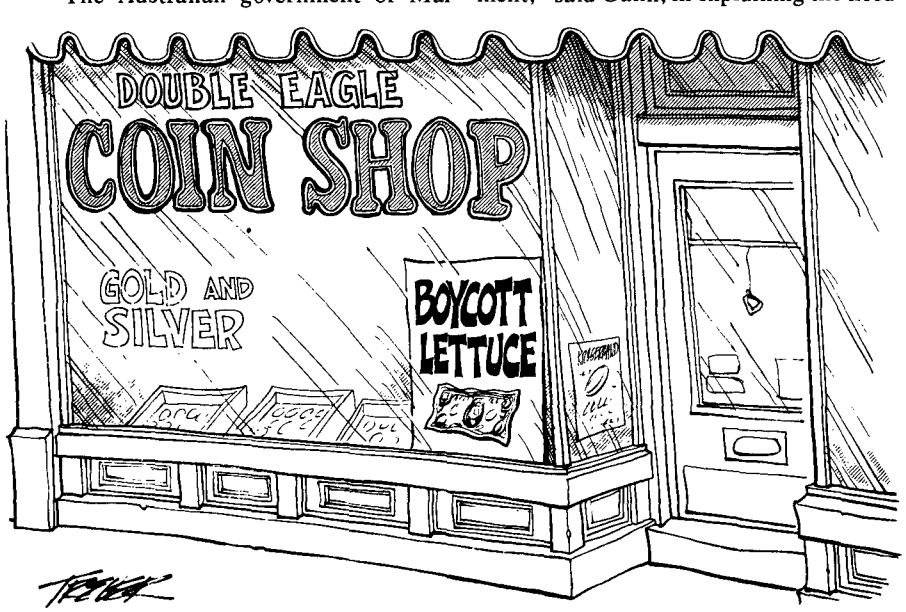
• *Organize!* If the Teamsters Union has its way, prostitution will be "organized," but not "crime." Barry Feinstein, head of Teamsters Local 237 in New York, has urged the repeal of victimless crime laws, making both casino gambling and prostitution legal in the city. And in reply to a question about prostitutes, Feinstein said, "I'm looking to sign them up. Any person who works for a living deserves to be represented by an organization that can make their [*sic*] livelihood better."

• *Opening the Doors.* A new California law has freed over 6,000 mentally retarded persons to leave state hospitals if they so choose. The new law sets much stricter standards for involuntary commitment. Over 700 left immediately; the other 5,300 are still free to leave.

• *Gold Rush.* The nation's second-largest commercial bank—Citibank—has joined the move to gold. It is now offering gold certificates, with a $1,000 minimum and additional increments of as little as $100. Gold certificates offered by most investment firms require a $2,500 minimum purchase. Citibank's move thus broadens the market and further increases gold's credibility as an investment.

• *Budget Balancers.* Two economic heavyweights have endorsed the need for a constitutional amendment to bar deficit spending. Former Federal Reserve Board chairman Arthur Burns has urged Congress to pass a law mandating a balanced budget and to endorse a balanced-budget amendment in order to avoid the "risks and dangers" of a constitutional convention. He has been seconded by Alan Greenspan, former chairman of the Council of Economic Advisors. Greenspan's preferred amendment would require a two-thirds vote, rather than today's simple majority, to approve spending measures. This, he believes, would curb deficit spending.

—Robert Poole, Jr.



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June, 1979

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Cashing in on Currencies

by Harry D. Schultz

MAKING MONEY WITH MONEY, investing *in* money, can be fun. And it's a skill that, once learned, will be with you forever. It enables you to be portable. You can make your living anywhere in the world. You can live where you wish. And as your talent grows, so will your profits and feeling of security.

Using currency rates to make fortunes has many aspects and many avenues. By touching on them briefly, I hope to open the door for some of you and coax you to explore further on your own.

One must first decide whether or not to use leverage, and if so, how much. If you prefer *no* margin, then you won't get rich very fast, but you'll take less risk. In this event, you profit by picking the right currency—or rather, the right time. The appreciation of any currency (and they all fluctuate) will obviously give you a capital gain plus interest. And you can follow (via charts, for example) the fortunes of any currency the same way you can follow any stock or commodity.

But if you elect to use margin, you can become a millionaire in short order—if you use proper tactics, if you do your homework, if you exert emotional control. Never before in history has it been so easy to get rich. "But you can lose too," they will say. Yes, of course. But that's where tactics come in. If you refuse to get trapped, then you *can't* go broke. It's the same in stocks; if you sell as soon as a stock turns against you, you can't go bankrupt. And if you secure a few winners and build on them, you'll score in a major way.

I'm referring here to using commodity futures for currencies. The Chicago International Money Market offers you a choice of seven world currencies. The margin requirement is minimal. Therein lies both the risk and the opportunity. You can get literature from your broker or from the IMM that will tell you about the technicalities, the routine, the choices, options. It's not complex, except for the first few minutes.

The secrets in this area lie, as in all investments, with judgment and strategy. Only here, it pays off better than usual. Judgment is involved first with picking the most likely winning currency. In early April, for example, the British pound was the strongest world currency. Sound peculiar? Unlikely? No, it's because of North Sea oil. So moving into pounds in the spring produced outstanding rewards.

You can make the wrong judgment and still salvage the situation with good tactics.

At the same time, the Japanese yen was a good short sale and apparently heading lower still, despite a sharp fall. And the Swiss franc and the German mark had been weak for some months. But the new European Monetary System (EMS) provides that currencies be supported at certain levels and stopped from rising at certain higher levels. The EMS in fact may be giving us a "guaranteed" profit if we buy low and sell high between these limits (which are not rigidly fixed but can be approximated). Study their price patterns. They could provide "social security" for you. It doesn't matter whether you go long or short; both are equally acceptable. You are betting *against* the US dollar if you go long. You're betting *on* the dollar if you go short.

Far more important are tactics, because you can make the wrong judgment and still salvage the situation with good tac-

The guru of gold tells how to spot hard and soft currencies — and what to do with them.

tics. There isn't room here for spelling out a complete set of trading tactics, but a few essential rules can be mentioned. For an example: if you take a position in any commodity or currency, let's say long on the British pound, and it immediately turns against you, there are two good choices and one bad one. The latter would be to do nothing—ride it out. With margin, that can be too costly. It could be that you picked the wrong currency or the wrong posture (long instead of short) or simply the wrong time (at the beginning of a correction). The other choices are: (1) Sell the position—take a small loss and wait until the trend is clearer. (2) Hedge the bet. That means you go short while holding your long. Or go short partially—that is, if you had four longs, you go one short, or two or three. This freezes all or part of your situation, stopping loss until you see which way the wind is blowing. You may then lift either the short or long "leg." You can also lift it in stages. The name of the game is avoiding big losses.

While you are learning the game, set modest goals.

While you are learning the game, I suggest that you set *modest* goals. Take profits early. Later you can try pyramiding —building up profits and only selling when your profits have been wiped out, and otherwise going for a killing in one particular commodity or currency. Toward the end of being cautious, I suggest that you use stops to catch intraday highs and lows for your buying and selling. Put orders in to buy below the market when it seems feasible, and put other orders in almost simultaneously to sell out when it reaches a desired reasonable, modest target, which may be hit intraday.

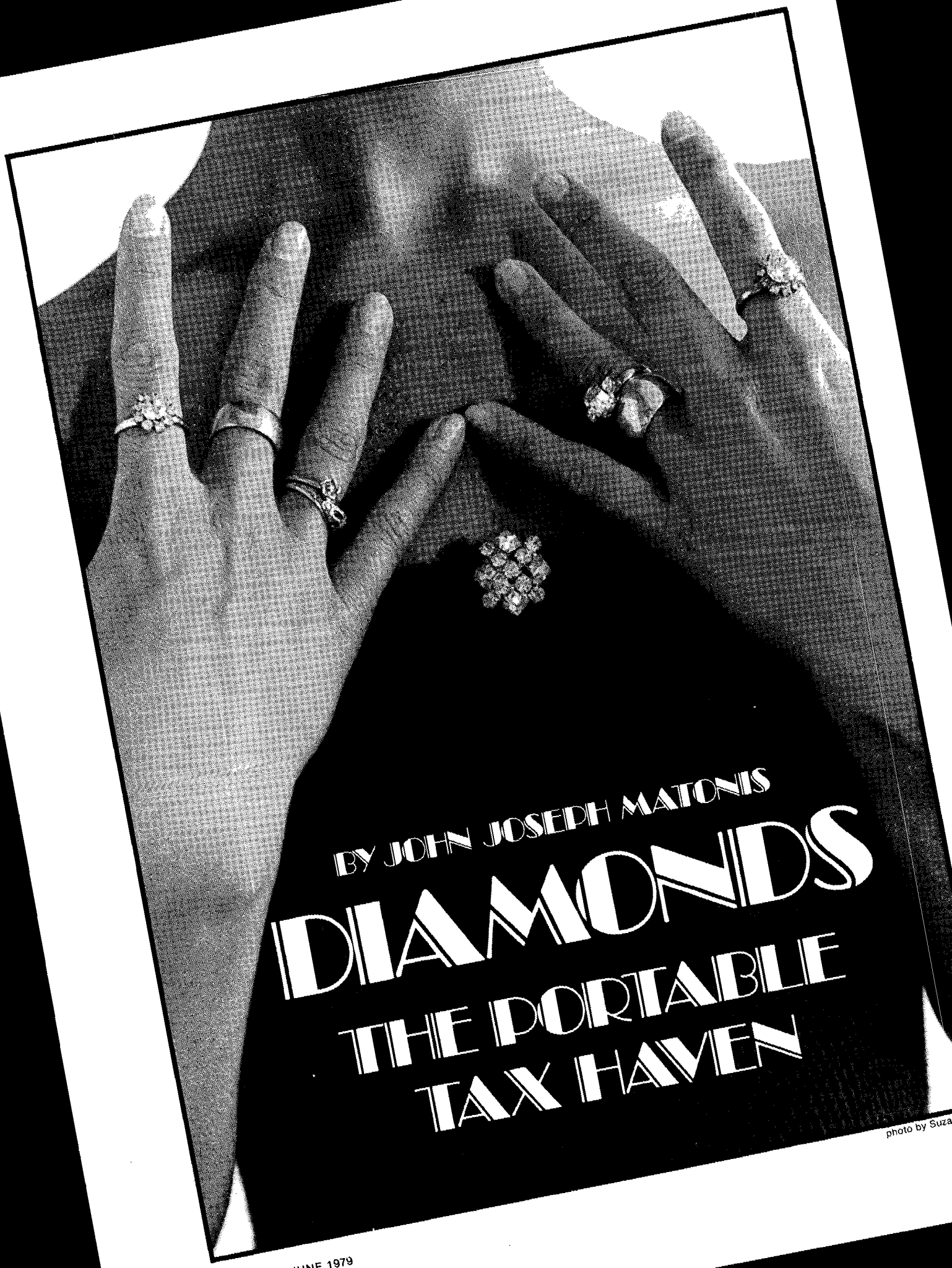
I also suggest that you begin with very small numbers, however much money you have. Buy just one contract in each currency you wish to trade until you see that you understand what you're about. I am staggered that some of my clients buy 10 and 20 contracts. When all goes well, that's fine; but if a reversal sets in and you don't act fast or use stops, that many contracts can wipe out your reserves.

If you find yourself making a profit at the very start, beware. It's dangerous to win at first. It gives you too much confidence, makes you think it's quite easy or that you are very talented. It's almost better to lose at first. Or if you don't, be rational enough to realize you had beginners' luck. Continue to be conservative, until you experience some reversals.

It's also best to trade in more than one situation. And don't be only long. If you have the dollar estimation wrong and are, for example, long on the DM, the Swiss franc, and pounds, you could get badly caught if the dollar turned suddenly. Better to be long on the pound and short on the yen, for example.

Does it sound complicated? If you're new to all this, it probably does. But it's not that bad. Study a bit, and you'll find it fun and very rewarding—more so than almost anything you can find today. Good luck. ◻

Harry Schultz publishes the International Harry Schultz Letter, *is president of the International Investment Association, and has written 13 books on money.*


BY JOHN JOSEPH MATONIS
DIAMONDS
THE PORTABLE TAX HAVEN
photo by Suza

WHAT ABOUT OFF-SHORE TAX HAVENS? Tax lawyers, accountants, and financial and tax consultants sooner or later hear this question. Why the query? Those asking about foreign tax havens are interested in:

- secrecy in existence of property,
- secrecy in existence of income,
- security of property from predators such as governments and legitimate creditors, or
- the few remaining esoteric, legitimate tax savings available through international tax planning.

The questioner never cares about the fourth reason. The other three *per se* do not involve criminal behavior but would if the existence of the tax haven cache or scheme were denied on a tax form or at a conference, examination, or hearing. There is nothing illegal, even under our oppressive law, about a foreign bank account. The *law* is violated when a citizen confesses on a government form and lies about the off-shore bank account or entity—for example, when the haven seeker files a financial statement as the result of judicial proceedings enforcing an Internal Revenue Service summons and the financial statement understates assets by the amount on deposit in George Town, Cayman Islands.

But who will know—right? Wrong!

Who will know could easily be the Intelligence Division of the IRS. A few years ago, IRS special agents implemented "Project Leprechaun" in Nassau, George Town, and Miami. They had passwords and countersigns. Their lock picks and vans with electronic impedimenta were so sophisticated that the Impossible Mission Force would have been green with envy. The IRS hired prostitutes and gave them the code name "The Mata Hari Corps." *Mata* would entertain a bank official while *Harry* would pilfer the *john's* briefcase for the book with secret account numbers and, in some cases, code names that go with those numbers. In some cases, the IRS agent would look for the names of shareholders in secret haven corporations. Prostitutes were paid out of the Treasury of the United States—literally for once, and not just figuratively. The IRS is continuing its investigation of foreign tax havens with the same lack of gentlemanly courtesy.

IN SEARCH OF SECRECY

Three of these reasons for interest in foreign tax havens center on that precious and elusive quality: anonymity. Yet anonymity, both in the existence of property and in the existence of income, is not as certain as promoters of foreign tax havens have proclaimed. The culprits are the French, notoriously the most adept tax cheaters on the planet.

The French have sought the sanctuary of neighboring Switzerland to hide their wealth from the French *Recezeur des Contributions Directes*, whose appetite is just as insatiable as that of the Internal Revenue Service. The Swiss yielded to pressure from the governments of France and other nations. Within the last five years Switzerland and the Cayman Islands, a British Crown Colony—the two most popular tax havens for Americans—have set up the machinery to disclose information to nosy government agents. In Switzerland, this machinery takes the form of mutual disclosure treaties. In the Caymans, which have no such treaty with the United States, it takes the form of a new Caymanian law.

Under the new law, any government authority can gain access to Caymanian bank records upon the filing of an affidavit alleging behavior that would be a crime in the Cayman Islands. Although tax evasion is not a crime by Caymanian lights, there are enough crimes common to both the United States and the Gulf tax haven to enable the IRS or the FBI to swear to an entire buffet of criminal behavior instead of tax evasion, and government agents have been known to lie under oath when they really want to "get" somebody.

For access to Swiss banking records, all the IRS need do is claim that the depositor is suspected of tax fraud. The linguistic Swiss, however, through a decision of their federal supreme court, distinguish between *tax fraud* and *simple tax evasion*. The former is discoverable under the treaty; the latter is not. Most of what the IRS calls tax fraud, the Swiss call simple tax evasion, and privacy survives in spite of a treaty with the United States. The point is, however: the legal machinery exists to enable the Swiss to divulge bank secrets to the US government. The assurances that this does not or likely will not happen are assurances of government officers who can vacillate—and perhaps even lie as well and as frequently as American government agents.

Yet many are still captivated by the mystique of foreign tax havens with tropical cohorts helping Americans keep wealth from official predators and Zurich bankers regaling visitors with tales of international intrigue involving state treasuries purloined by escaping dictators. Then too, there is the status achieved when one has a foreign bank account or off-shore corporation.

While the prevailing motivation for fascination in foreign tax machinations is anonymity, the need for it becomes critical precisely when a government investigator, lawyer, or judge asks the direct question, "Do you own or have an interest in a foreign bank account or entity?"—a question that can evoke only three answers: "Yes"; "I refuse to answer on the grounds that my answer may tend to incriminate me"; and "No."

The "No" answer would be a lie under oath and the crime of perjury. True, there is virtually no chance of "getting caught" with sophisticated foreign tax planning; however, the anonymity becomes vital to prevent prosecution, and foreign government agents are still government agents and therefore cannot be trusted.

If that is not enough: property with a foreign locus is not *portable*. *Portability* is as important to those interested in foreign tax havens as is anonymity, and a foreign tax haven's main deficiency is that it is *foreign*.

WHY DIAMONDS?

The perfect tax haven is anonymous, portable, not foreign, liquid, and appreciating in value. It, of necessity, would be property of intrinsic value. Gold and silver have too much mass in relation to value to be portable. Art treasures are not liquid. The ideal tax haven is one that *is the property itself*, property that combines anonymity, portability, availability, and liquidity. And what property haven meets these criteria? Diamonds.

Over the last seven years, diamonds of investment quality have appreciated in value, on the average, better than 25 percent per year. The prospect for more appreciation is even greater.

Inflation increases the value of diamonds, as does *whatever* happens in Africa. South Africans are buying and hiding diamonds, thereby reducing the supply. Miners must dig deeper into the volcanic pipe to find diamonds. Diamonds found deep in the pipe are poorer in clarity and color than those found near the surface. (The 44.5 carat Hope Diamond was found in a stream in India!) Black majority rule in South Africa, especially if won by rebellion or invasion, most likely would trigger the flooding of the diamond mines with water kept out only by the skill and technology of white Afrikaaner technicians. This is precisely what happened in Angola a few years ago.

The market, uninfluenced by any government and therefore *free*, in one sense, is yet manipulated upward by the supplier, DeBeers Consolidated Mines of South Africa. Liquidity, however, can still be a problem for short-term investment of less than 18 months, but as investor demand for diamonds continues to increase, so does liquidity.

The biggest obstacle to diamond invest-

ment is the mystery that surrounds diamonds and the resultant inability to be certain that the price of the diamonds purchased is the lowest possible price. This mystery can breed sharp practices and fraud.

Yet diamonds remain the *hardest* of the "hard money" and offer the investor more advantages than foreign tax havens. Hard-money advocates increasingly are adding investment-quality diamonds to their doomsday portfolios. The sparkle has been dulled, however, by certain cloudy practices that have crept into this, one of the fastest-growing new investment markets. Many investors are disappointed because, even though the *price* of investment diamonds has risen substantially, the resale *value* of their investment has not risen as much. In some cases, these investors find out a year later that it is difficult to sell the diamonds for what they paid for them and that they must wait 18 months or two years to realize a gain. Diamonds can be a good investment and a near-perfect hedge against inflation, but only if investors understand basic principles of diamond economics and if investment diamond houses avoid the temptation to exploit confusion. For the savvy investor dealing with the credible investment house, diamonds can be the best investment for these sorry times of government money grabbing, double-digit inflation, and monetary uncertainty.

DIAMOND SAVVY

Education in the investment diamond market starts with a basic understanding of these traps for the unwary:

Diamond dealers who don't know much more than neophytes about diamonds. The diamond market is virtually unregulated. There are no tests or requirements for becoming a diamond seller. And many people in this trade lack basic knowledge about the technology and economics of diamonds.

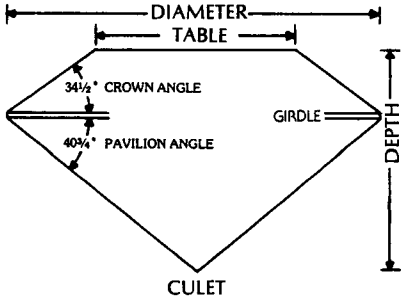
Antique shops, jewelry stores, gold and silver dealers, and pawnbrokers are becoming overnight "experts" in investment-grade diamonds. Usually having built up trust with the prospect from prior transactions, many of these part-time diamond dealers take advantage of that trust by overpricing. The diamond investor can protect against such overpricing by dealing only with professional diamond brokers selling only quality investment diamonds certified by the Gemological Institute of America (GIA), a nonprofit gem-grading laboratory located in New York City and in California in Los Angeles and Santa Monica.

The highest-quality diamonds, and generally the best investments, are called investment-grade, not to be confused with *diamonds for jewelry, called cosmetic*-grade, or with industrial diamonds. The primary keys to determining diamond quality are the four *C*s: carat, color, clarity, and cut.

Carat is named after the tiny carob seed used since ancient times as a miniscule unit of measurement. A diamond's per carat value increases geometrically as the carat weight increases. So, a two-carat diamond of a particular clarity, color, and cut is worth *more* than two times the value of a one-carat diamond of the same clarity, color, and cut. Until recently, diamonds of less than one carat were not popular as investments in the United States, but that situation has changed, making the investment diamond market more accessible to small investors. An investor can purchase an investment-grade half-carat diamond for as low as $1,500. Currently, it takes $4,500 to start an investment portfolio with diamonds of one carat or larger.

Jewelers classify diamonds by *color* as white or blue-white, faint yellow, or other colors. True diamond professionals, however, do not grade colors with descriptive terms. In the language of the professional, the best diamond is not classified as white or blue-white. The highest color grade is D on the GIA color table for diamonds. A diamond is downgraded E, F, G, etc., as it takes on a color or becomes cloudy, losing what is called "the ice effect." To the untrained eye, these colors look alike. The only way a buyer can be sure of a diamond's color grade without actually matching it to comparison standard stones is to read the color rating on the GIA certificate. The optimum color grades are D, E, F, G, and H.

Figure 1



The highest *clarity* grade is flawless and, next to that, internally flawless. Stones of such quality are exceedingly rare, however. Even the next-highest clarity grade, VVS-1, is difficult to find on the investment market. The difference between a VVS-1, which stands for very, very slight inclusion of the first degree, and a diamond that is flawless or internally flawless is the presence in the VVS-1 of one to three tiny pinpoint inclusions in the stone. These only affect the grade when visible under ten-power magnification. As the number and size of inclusions increase, under the GIA clarity rating system, the grade drops from VVS-1 to VVS-2 to VS-1 to VS-2. Clarity grades below VS-2, like SI-1 and SI-2 and lower, are not acceptable as optimum investment-grade stones.

The *cut*, or "make," of a stone refers to the stone's physical dimensions, computed as ratios and expressed as percentages. The ideal investment stone is the round brilliant cut with 58 facets. Often, in order to save a portion of a rough diamond that excels in color and clarity, a diamond will be cut in a familiar round brilliant shape but not exactly according to the classical blueprint for that cut. To the degree that it varies from the classical exemplar in dimensions and shape, a diamond loses value. The GIA certificate for a diamond shows the stone's depth percentage, crown angles, and table sizes. The depth percentage reflects the relationship between the diameter of the diamond and its depth (Figure 1). Acceptable investment diamonds have a depth percentage between 58 and 63. The ideal crown angle for an investment stone is 34½ degrees. The crown angle will not be mentioned at all on the GIA certificate unless it is 30 degrees or less. The table size is a percentage expressing the relationship between the table, or the flat top of the stone, and the diameter of the stone measured at the girdle. For investment stones, the table percentage should range between 54 and 65 percent, with 60 percent preferred.

No "pedigree." By this time it should be obvious that the descriptive details of the GIA certificate are absolutely necessary in determining a stone's value. Yet many diamond houses palm off diamonds without GIA certificates! They rationalize that GIA does not evaluate diamonds under one carat—which is not true. People who say that are marketing diamonds with a brand "X" certificate that does not indicate poor crown angles. The California GIA labs have always graded smaller carats, and they always indicate poor crown angles (30 degrees or less), which rates a major reduction in that particular diamond's value.

Buying a diamond without a GIA certificate is like buying an automobile from a juvenile delinquent on a street corner without an automobile title certificate. The GIA certificate shows physical factors that determine value, but it also contains information that indentifies a diamond so that the investor can be sure that the stone purchased is the diamond referred to in the certificate. For example, a micrometer is used to measure the dimensions of

the stone. Like snowflakes and fingerprints, no two diamonds are exactly alike. Some diamond houses claim they are staffed by GIA graduates using GIA standards. In the same breath they mention the word *certificate*. But the paper presented upon delivery is *not* a GIA certificate and will not be accepted as certification by diamond professionals. This is important for two reasons: the diamond is usually worth less than represented because its color, clarity, or cut is not as claimed; and without a GIA certificate the diamond is hardly liquid if the buyer decides to sell.

Like snowflakes and fingerprints, no two diamonds are exactly alike.

"I can get it for you wholesale." Many diamond houses claim to be selling at wholesale or at wholesale prices. The term *wholesale* is a misnomer. Something that is not sold for resale cannot be sold at wholesale, and investment diamonds are not sold to be sold again at retail. Rather than selling diamonds at a set price—the price to the broker—and charging a brokerage fee, diamond dealers have been selling diamonds at a sale price that includes their profit. Most diamond dealers have mark-ups of over 35 percent; some even go over 100 percent. A few have mark-ups considerably below 35 percent.

Leverage. Using a "leverage contract" can be called trading diamonds on margin. A prospective diamond investor with $10,000 who is interested in buying a diamond for $10,000 is told that twice the amount's "value" can be "tied up" at current prices by using the $10,000 as a down payment and paying off the balance in usually six monthly installments with a little interest. There is one diamond house that even allows you five years to pay off your purchase. No diamond is delivered until final payment is made. Before delivery, however, the diamond house representative tells the investor that diamonds have risen in price and prospects look good for further increases—virtually always a truthful statement. The representative then suggests a "roll over" of the position originally costing $20,000 and now worth, say, $25,000 to "tie up" diamonds worth $40,000 to $50,000. Still, no diamonds have been delivered.

The nagging question is: Are those diamonds you are purchasing really *there*? Or is the whole thing a gigantic Ponzi scheme with no diamonds or very few diamonds to be delivered, with the investor merely moving from one diamond investment position to another on paper only? And some of these leverage contracts are not even on paper. The big danger with this musical chairs game is that the music might stop and you might not get a chair. There are many variations of leverage contracts in diamonds, and some are better than others. For example, a contract to buy *specific* diamonds in installments with delivery upon full payment maximizes safety in a leverage diamond contract.

The liquidity problem. Investment diamonds are today where gold and silver were in the years 1968-70. Then, liquidity of precious metals was not optimum, but those who invested in metals of proven intrinsic value before precious metal investments became popular realized gains as liquidity increased. Such investors hoped to hedge against inflation. That they did, and more. Eventually competition forced a stabilization of gold and silver prices by narrowing the gap between the bid price and the ask price. Price quotes from markets became common, so that today an investor can make one phone call and find out the current price of gold and silver.

As with precious metals, the liquidity problem in diamonds is being solved by increased competition and volume caused by the popularity of diamonds as an investment. One wire house, or large investment broker, dealing in securities as well as other investments, Shearson Hayden Stone, has formed a company, Polygon, to deal in diamonds. This is a significant step in bringing liquidity to the diamond market because a buyer can be sure of selling a diamond in a known price range *on the same day it is purchased* if he or she wants to. E. F. Hutton is another wire house considering the brokerage of investment diamonds. In France, the Rothschild Bank and the IndoSuez Bank are already offering diamond investment programs.

Diamond brokers, as expected, are optimistic about the liquidity of investment diamonds.

Gerry Hauser of La Jolla Diamonds, a company that buys as well as sells investment diamonds, told this writer: "We handle the liquidity problem by affiliating with a member of the New York Diamond Dealers Club, one of 14 international diamond *bourses*. This maximizes the current liquidity. Nevertheless, we recommend holding a stone for at least 18 months and preferably longer before selling. This time period not only assures maximum liquidity; it exceeds the required holding period for capital gain treatment of any realized gain instead of tax treatment as ordinary income. Those who invest in diamonds do so as a hedge against inflation and are not interested in short-term gain or in speculating in the diamond market. Some investors 'liquidate' by trading their diamonds for real estate or other forms of property. For instance, you might have a stone appraised at $60,000 which cannot be sold immediately for more than $50,000 but which someone might exchange for real estate worth $60,000."

For the savvy investor, diamonds can be the best investment in these sorry times.

On the whole, the prospects for better liquidity in investment diamonds are bright. Liquidity is likely to be a factor in the rise of the price of diamonds the way it was in the rise of the price of gold in the early 1970s. So an investor who buys diamonds now before the coming increase in liquidity should realize the same sharp gains realized by early gold investors.

Buy back. The government objects to diamond sellers' promising to buy back a diamond at any price. No doubt this is supposed to "protect" people, but the government's reasoning here is as specious as the justification for government intervention at all. Nevertheless, *buy back* plans are tricky, and you can get less than you bargained for.

A typical plan involves a promise by the seller to buy the diamond back discounted 15 percent from the seller's list price, plus the seller charges an additional two percent handling fee to cover the seller in market fluctuation. One diamond house tacks on a buy-back commission to the sales price of the diamond when the diamond is sold to the investor. Such liquidity insurance is costly because the investor may never sell the diamond or may sell the diamond through another house, but he still pays the buy-back commission.

The low ball. Mystery still surrounds diamond pricing. An investment diamond dealer may offer, as an example, a one-carat round-cut diamond of fairly good proportions with a clarity grade of VVS-2 and a color grade of F for a bargain $7,000. Unlike security purchases, a diamond deal can never be consummated until the stone actually changes hands. When the dealer goes to the operations manager of the diamond house he finds

out, to his chagrin and the investor's, that that particular diamond just happened to be sold as the representative was discussing this transaction with the investor. But, fortunately for the investor, there is another good deal in the inventory that just came in: a VVS-1, G color, 1.05-carat round diamond of better proportions. The price is $10,000. The first, bargain deal was in fact commercially impossible. The second is not good but is realistic and is profitable for the diamond house. If the prospect does not want to invest more than $7,000, a different-quality stone that is not such a good deal can easily be found in the inventory. This stone—one-carat, VS-2, F color—is the one the dealer had in mind all along.

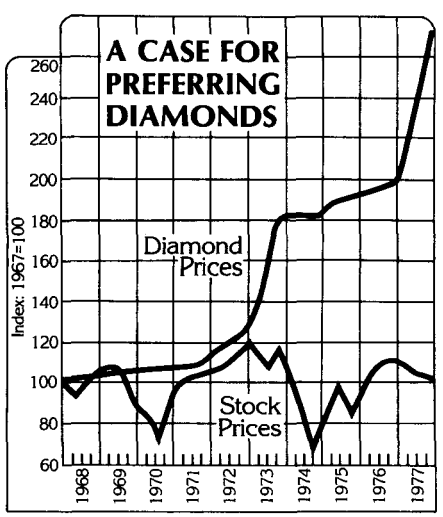
As with buying a new car, the *low ball* is an effective sales technique because of the many variables that go into pricing. In automobile pricing the variables are automatic transmission, power windows, bigger engine, tape deck. In diamond pricing, the variables are carat, size, clarity, color, table and depth percentages, etc. The many variables in diamond pricing and the interplay between them make it difficult for the investor to spot the gap between the *low ball* and the commercially feasible price.

The rip off. One reason why investors buy diamonds is for their hard-money features—intrinsic value held anonymously by the investor. This trait of diamond investing is frustrated by the so-called leverage contract. It also is frustrated when stones are turned over to another for any reason, such as certification by a diamond laboratory or appraisal. A wise buyer always asks for a purchase order or confirmation describing the deposit and setting a value, even if this "value" is less than the actual value of the stones. Otherwise, the buyer has no proof of ownership.

Another rule: never show a diamond dealer or anyone else two stones at the same time, but wait until the first stone is examined and taken off the table before the next stone is displayed. Examination of two stones at the same time facilitates a switch of a stone of lesser value or even a fake diamond. Of the fake diamonds, the most realistic is cubic zirconium, a man-grown crystal with a weight about 1.5 times that of diamonds but worth only about $60 per carat.

Again, the GIA certificate and a check with a micrometer to make sure the diamond offered is the one referred to in the certificate protects the buyer from a switch of a phony stone for a diamond. A good way to ascertain the authenticity of a diamond is to instruct the seller to mail the diamond through GIA, which then certifies not only the grading of the diamond but also the authenticity.

Figure 2



NOTE: The index of diamond prices is based on the quotes for uncut and unpolished stones ("diamond rough"). The index of stock prices is based on the Standard & Poor's 500.

SOURCE: The Diamond Registry, adapted from *Fortune*, Mar. 27, 1978.

DIAMONDS FOR PROFITS

Figure 2 shows the performance of diamonds compared to stocks. Note the smooth, steady, upward rise in investment diamond values. Prices are set by DeBeer's marketing arm, the Central Selling Organization, headquartered in London. This sales entity markets 85 percent of the world's diamonds. When demand is low, it withholds supply, and in the first half of 1978, for example, DeBeers placed four surcharges on rough diamonds in fulfillment of its stated objective of supporting market stability.

This writer does not advise diamonds as a medium for tax fraud. What the harried American investor does with the anonymity and the portability of his or her diamonds is none of this writer's business. As with foreign tax havens, merely keeping wealth cloaked with anonymity is not a crime even under the Internal Revenue Code. The taxpayer becomes a "criminal" by government standards when the existence of property is denied on a financial statement or when income in the form of gain is not reported on tax returns. The fact that such "crimes" are hard to detect when anonymous wealth is kept in the form of diamonds does not make tax evasion any less a "crime." It merely reduces the government's ability to detect the "crime" and to prosecute.

Perhaps the greatest potential loss in government revenue resulting from the anonymity and portability of diamonds comes in the area of death taxes. An elderly or dying taxpayer with property that appreciated, for instance, from $100,000 to $1,100,000 may well be tempted to liquidate his recorded property holdings and purchase $1 million worth of anonymous and portable investment diamonds to distribute to the objects of his bounty. This *lifetime giving* is subject to the federal gift tax, which is the same as the federal estate tax and which can be over 70 percent.

"Tax-evasion crimes" are hard to detect when anonymous wealth is kept in the form of diamonds.

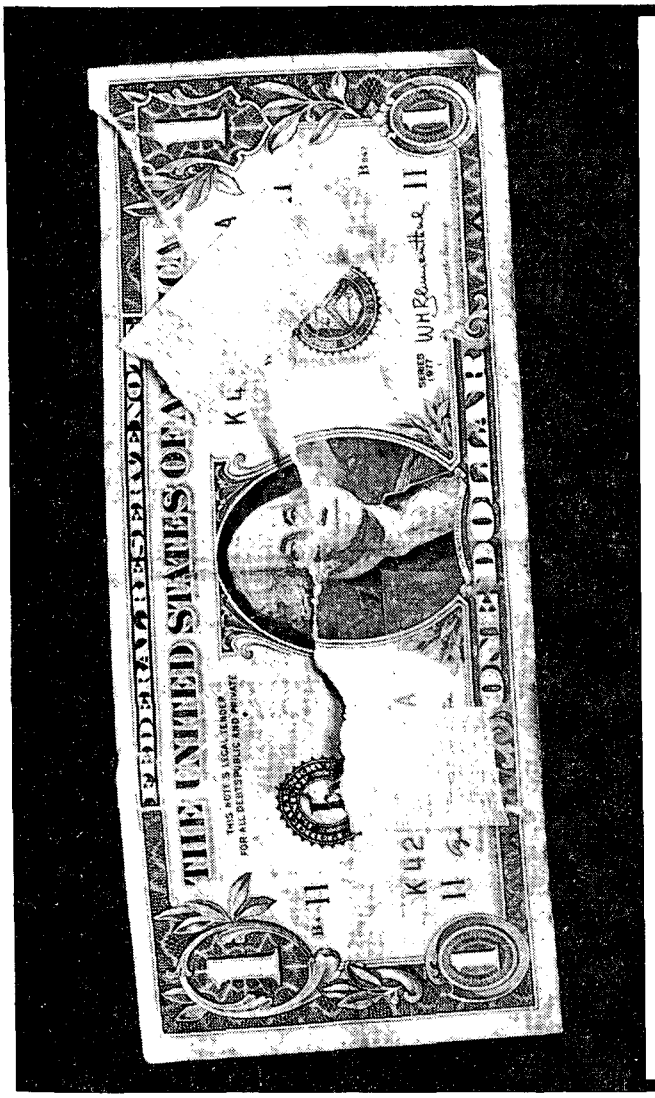
Even if the cynical entrepreneur once submitted a truthful financial statement to the government or to a bank (same difference), the missing million cannot be traced to the recipients of this "criminal" largesse without their help. Perhaps Daddy Warbucks lost the proceeds from the sale of the estate in Las Vegas or Atlantic City. If the diamond transaction is discovered, which is unlikely in this scenario, that young gold-digger whom Daddy had ensconced in a condominium had cajoled the old fool into giving her those diamonds, thereby defeating the valid probate claims of bereaved heirs, etc.

About the only recourse available to the IRS is setting aside a transfer they can only imagine, assessing imaginary transferee liability, or using their "indirect method" of determining income by computing net worth based on visible purchases, bank deposits, or expenditures. If members of Daddy's family keep their mouths shut and do not flaunt their windfall, the IRS forage is frustrated.

Daddy did not just become a "tax criminal" in the twilight of his life. He probably rode the rising price of diamonds, selling for a gain, failing to report it, and replenishing his diamond investment portfolio with lower-priced stones in the unlikely event he needed diamonds to show the tax collector that he still had the original stones in the same number and even the same total carat weight. He probably gave the diamond broker a fictitious name.

Such opportunities, illegal though they may be, do not present themselves with foreign tax havens. Diamonds are, indeed, a tax haven at home. ◻

John Joseph Matonis practices "antigovernment law" in San Diego, Calif., and Washington, D.C. He has won two cases against Food and Drug Administration regulations. Since 1973 he has been defending against the IRS's assault on property and freedoms.



DOLLARS AND DEFICITS

Deficit spending and inflation are out of control . . . but there might be hope for the dollar.

BY NICHOLAS L. DEAK

WE HAVE TWO PROBLEMS. One is domestic inflation, and the other is the value of the dollar outside the United States. As far as domestic inflation is concerned, the creator, the originator, of the inflation is not the overspending of the people, not the unions, not the nasty bankers charging outrageous interest rates, not the manufacturers—it is the government.

As long as we live with a government that has a deficit in the budget we will have inflation. The *size* of the inflation can be influenced by auxiliary things—by political news items, by economic developments in the country—but let's not kid ourselves: we cannot avoid inflation as long as the government has a deficit. If the government eliminates the deficit, we can cope with the problems.

Now, is it the administration that creates deficits? No. It is Congress authorizing expenditures. So we should not blame the administration; we should blame Congress. And, actually, we should not blame Congress; we should blame ourselves for sending to Congress representatives who approve expenditures in excess of the government's income. A banker friend of mine made a suggestion that the Constitution be amended to prohibit any member of Congress from running for reelection if during his tenure of office there was a deficit in the budget.

The inflation that we have in this country will continue because, in my humble opinion, the government cannot eliminate the deficit. And as long as we have inflation, we will have an erosion of the value of the dollar and the purchasing power of the dollar. It can be taken for granted that the dollar of today will not buy the same quantity of goods and services next year. How can you protect yourself? That is very difficult and I will discuss this later.

Now, let's take a look at the value of the dollar outside the country. Of course, it is affected by domestic inflation, but we could have a strong dollar despite the domestic inflation. Its value outside the country depends on the US balance of payments. By looking at the value of the dollar outside the country, we can determine whether the balance of payments is negative or positive; because if the dollar goes down, that means the balance of payments is negative, and if the dollar goes up the balance of payments is positive.

I am not speaking of the balance of trade, which is an entirely different type of animal. Let's not forget that our exports are only about 7 percent of our gross national product and thus rather insignificant in our total economy. Some of the European countries export 50 percent of their gross national product. For them it is important; for us it is not tremendously important.

The balance of trade is a contributory factor in the balance of payments, but it is

the latter that is important. If our balance of payments is negative, the dollar goes down. There is no other way. It means that more dollars are being offered outside the country than there is a demand for. If we have overproduction of grain, the price of grain will go down. If we have overproduction of copper, the price of copper will go down. If we have "over offering"—an excess offering—of dollars outside the country because of the balance of payments being negative, the price of the dollar will go down. It is just that simple. If other countries were to continue to buy up our dollars, *they* would create domestic inflation, because they would have to increase the issue of and so inflate their own currency. They try to avoid that.

Recently an interesting development occurred. The Swiss franc is the strongest currency in the world. But recently the Swiss decided to buy German marks and issue Swiss francs, even if this carries with it the danger of inflation in Switzerland. Why? Because they depend so heavily on the German economy. More than half of their exports go to Germany, and more than half of their imports come from Germany. They have to maintain some sort of ratio between the franc and the mark, so they decided that they will buy German marks if the mark tends to go down in relation to the Swiss franc.

Inflation in Germany is about three percent and in Switzerland it is about one percent, so the Swiss inflation will go up. It will go up one or two percent in order to adjust itself to the German situation. And since Germany is supporting the other countries in the European monetary system—like Belgium, Luxemburg, Holland, Denmark—actually the Swiss monetary system will depend very much on what is happening in the other European countries. There is a certain weakness now in the Swiss currency for the first time in many years.

THE DOLLAR'S FUTURE

When people ask me what is going to happen to the dollar tomorrow or next week or next month, I say that I don't know. I only know what the trend is. Since our balance of payments is negative, since the offering of dollars abroad has been heavier than the demand, the value of the dollar must go down. Our smartest action in this country in the last few months was the increase of the discount rate by the Federal Reserve, because this made the interest structure in this country go up, and that attracts money. So money came into this country to earn the high interest. The trend reversed itself, improved our balance of payments. Whenever you see the interest rate go up, you can reasonably assume that the dollar will get stronger abroad and inflation will increase, because the interest rate creates additional pressure on prices.

So we know that inflation will continue here and we know that we are also facing a balance-of-payments problem. There is no solution to the inflation; there is a *possible* solution to the balance of payments and hence to the value of the dollar in certain countries. If our policy is to continue with high interest rates to attract money from outside the country—and we'd add to this a reduction of government interference in our economy to attract money to this country—then there will be demand for dollars for the high yield and the good possibilities of investing in industries and commerce. If you watch the interest rate, and you watch government restrictions, you can arrive at a conclusion about what is going to happen to the dollar abroad.

There is a weakness now in the Swiss currency for the first time in many years.

There is another aspect that we have to watch carefully. We have witnessed a major development in Iran. There could be similar developments in other countries. There are problems in the Far East. If some foreign countries undergo political upheavals—and economic upheavals—and we continue in this country to maintain our good, solid government, then monies from those countries will come to us, improving the balance of payments and strengthening the dollar. I cannot foresee at the present time in the strong-money countries like Japan, West Germany, France, and a number of other western European countries, such major developments. But it is conceivable. In Spain there are strikes, and a lot of Spaniards might try to get their money to the United States or into dollars because they would feel more comfortable, and that is understandable. All these are contributory factors toward a stronger dollar.

WHAT TO DO WITH DOLLARS

Now let's go back and ask just how we can protect ourselves against the erosion of the value of the dollar inside the country, against the loss of purchasing power of the dollar. If you are well versed in diamonds and you know exactly the qualities of the stones and you know where to go to buy and to sell, then it is perfectly all right for you to buy diamonds, because you know you can turn around at any time and sell them at a good price. But if you are not knowledgeable, stay away from it. If you are an expert in art and know where to buy and sell art, then fine. The price of art goes up.

But those who are not on top of these fields have to concentrate on other things that are readily marketable, that can be bought and sold at any time at a published price without taking a beating. I am not going to talk about stocks because I could write books about my ignorance about stocks. But I know something about gold and silver and foreign currencies.

If you buy gold intelligently, meaning that you buy gold in such a form that you know you can turn around and sell without loss because there is a ready, quoted market, that would perhaps be a reasonably good investment. You can take it home with you if you buy so-called bullion-type gold coins, or you can put it in a bank safe, or you can buy it abroad and leave it abroad. You can buy silver, but silver you cannot take home because it is too heavy; so you have to leave it with the broker from whom you buy it or at a bank, and you just get a certificate. You can also get a certificate for gold, without ever seeing the gold.

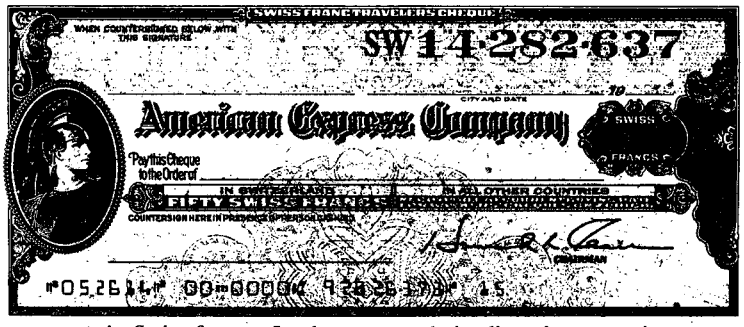
Or, if you believe that the inflation here will continue to affect the value of the dollar abroad and the balance of payments is not quite what it should be, then you can buy Swiss francs. You can buy Swiss franc bank notes and put them away, which is not very smart; or you can buy Swiss franc travelers checks and put them away; or you can just transfer dollars and hold Swiss francs in a bank abroad. There are certain restrictions with Switzerland, but those can be overcome without violating the Swiss regulations. You can have Swiss francs, for instance, in a Dutch bank or in an account in an Austrian bank, and there are no restrictions. But in Switzerland itself you cannot have more than 100,000 Swiss francs in an account because you would be hit with so-called negative interest rates.

THE STRONG AND THE WEAK

As I was preparing my comments here I was thinking about how I could compare inflation or the overspending in this country with something tangible, and it occurred to me that I should take an example of a very heavy, overweight man. Imagine a man of 300 pounds and next to him a thin fellow of 130 pounds. Now both of them, let's assume, need 2,000 calories to carry on, but they are getting only 500 calories a day. The thin fellow will perish because he has no reserves. The heavy-set fellow can go on for a long time; and that is how I feel about the United States. The United States is the heavy-set fellow. But (*Continued on p. 52.*)

The Poor Man's Swiss Bank Account

by Sandy Sandfort



YOU HAVE BEEN watching the sickening slide of the dollar with growing apprehension. You have not been fooled by Carter's mumbo-jumbo explanations and temporary "cures." Due to inflation, every dollar you own and every dollar-denominated asset you hold is rapidly losing the value you worked years to accumulate. What *will* you do?

The stock market? Real estate? Every new lurch of our overtaxed, overregulated economy could leave you holding worthless paper. And any new zoning regulation or rent control might make you a landowner in name only.

Only precious metals and currencies firmly backed by precious metal seem to constitute the calm eye of the inflationary hurricane. And yet, as a wage-earner or small-business person you lack sufficient accumulated capital to take advantage of these investments with buying large lots, paying exorbitant premiums, or making large initial deposits. Also, in the case of foreign bank accounts, US reporting requirements and bank telegraph records leave an easily traced audit trail you may wish to avoid.

But there *is* a safe, effective, and affordable alternative for the average American—Swiss franc travelers checks. American Express travelers checks can be purchased in packets as small as 50 francs, an investment well within the means of even the most modest investor. (And Swiss Bankers Travellers Cheques can be purchased *individually*.)

If you regularly buy SFTCs (Swiss franc travelers checks) you will be creating your own "payroll savings plan." The benefits of doing so are many. SFTCs that are destroyed, lost, or stolen can easily be replaced. Their purchase and ownership is known only by you and is not a matter of public record. They are immune to bank "holidays" and are easily and safely stored, mailed, and negotiated, domestically and internationally.

And because of their negotiability and fitness as a means of saving and accumulating capital, SFTCs function as an excellent entree into economical precious metal purchases and foreign bank accounts. Once you have saved sufficient funds in the form of SFTCs you will have the options of opening Swiss bank (or other) currency and precious metal commodity accounts. Transfer of the necessary funds is no more difficult than endorsing SFTCs to your Swiss bank account and sending them off via ordinary mail. (Remember, they will be replaced if lost.)

Similarly, with sufficient funds accumulated through the purchase of SFTCs, you can buy precious metal bullion or coins domestically in quantities large enough to take advantage of bulk purchase discounts without suffering the ravages of inflation during the time you are accumulating funds.

All of this can be accomplished without reconversion to dollars and the attendant cost of arbitrage. In the case of Swiss banks, they would *prefer* deposits denominated in Swiss francs. In the same manner, many precious metal dealers in the United States maintain Swiss franc accounts. By paying in SFTCs you save the dealer the cost of exchange. This alone should be worth something in negotiating your purchase price. Don't take no for an answer; if a dealer won't take SFTCs call around until you find one who will. There are plenty who will jump at the opportunity.

To start your own SFTC inflation survival program you must locate an outlet for Swiss franc-denominated travelers checks. If there is a Swiss bank branch, such as Swiss Bank Corporation, Credit Suisse, Union Bank of Switzerland, Swiss Volksbank, or Bank Leu, Ltd., in your city, you have a significant advantage. All Swiss banks offer Swiss Bankers Travellers Cheques, which are known and accepted around the world. Also, even *American* Swiss bankers mind their own business and are prompt and efficient in satisfying your needs. Ultimately, your local Swiss bank can be of assistance to you if you decide to have business dealings or to do banking abroad.

Deak and Co., an international currency and investment service, also is an excellent source for foreign currency travelers checks (their own) as well as foreign currencies, various precious metal investments, and assorted financial services. They have offices in major cities throughout North America and the world, and they are unsurpassed in the confidential execution of their clients' transactions.

If neither a Swiss bank branch nor a Deak office is handy, your regular bank, savings and loan, or travel agency may be willing to get you American Express or other travelers checks issued in Swiss francs. Generally, the institution in which you keep your regular accounts will, as a customer service, waive the usual one percent surcharge. But remember, even with the surcharge and the costs of the currency conversion, SFTCs are still the cheapest insurance you can get to protect against the loss, destruction, or theft (or theft by devaluation) of your savings.

There are some caveats. The investor should take account of the fact that travelers checks are not interest-bearing. Diversification is still important. And the buyer should consider whether the dollar is apt to go up or down. Recent moves by Carter to "bolster the dollar" have *temporarily* caused the dollar to gain ground vis-à-vis gold and the Swiss franc.

Do not be fooled. Selling Fort Knox gold and borrowing Swiss francs, Deutschmarks, etc., to prop up the dollar today guarantee its swifter, more total, ultimate destruction. While you have the chance, take advantage of bargain-basement prices for gold and Swiss francs. Reality cannot be held at bay much longer.

Sandy Sandfort has been admitted to the bar in Missouri and Arizona. He currently lives in San Francisco, where he is writing, teaching, and working with libertarian groups.

THE CRASH THAT'S COMING

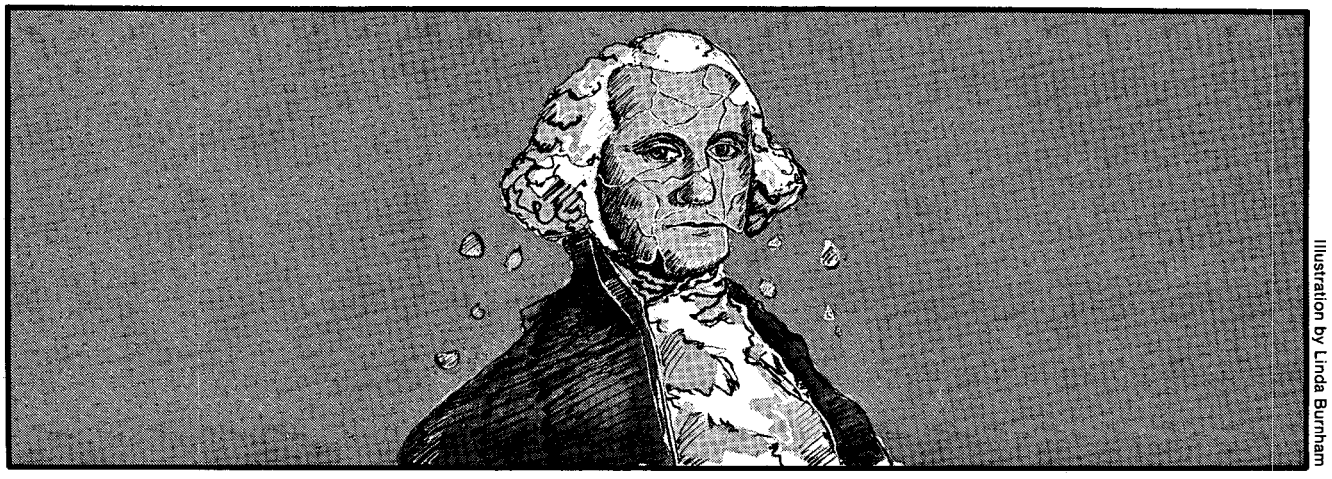


Illustration by Linda Burnham

AND HOW TO SURVIVE

by Howard J. Ruff

RECENTLY, I got back behind the wheel of a Beechcraft Baron, an airplane in which I had spent about 600 hours as a pilot back in the late 1960s. Like most high-performance aircraft, it's a very sensitive machine, tremendously responsive to overcontrolling, and I had to learn once again the one lesson that any good pilot learns—to "trim" his airplane so that it will maintain heading and altitude "hands-off." He also learns not to try to fight every little updraft and down-draft and that, when moving through light turbulence, the aircraft is easy to correct if it is properly trimmed. Overcorrection can lead to overreaction, which leads to more overcorrection, and pretty soon you are oscillating wildly all over the sky. In other words, the less you do, the better.

I wish that everyone who has a voice in calling the shots in this government could learn that one lesson. This nation would be a much better, safer place to live if all of them would just leave their cotton-pickin' hands off the controls. As we move into 1979—into what I am convinced is the beginning of a major recession, and possibly an inflationary depression—I am persuaded that many of our troubles relate to amateur "pilots" who just can't quit manipulating the airplane. As a result, our economy is oscillating all over the place, and freedom is in a bear-market trend.

Government managers seem to be of the opinion that, when you are faced with minor economic Problem A, if you push Button B it will instantly result in Economic Solution C. If there's anything we should have learned over the last several years, it is that (1) the statistics by which we measure Economic Problem A are so wildly inaccurate as to be not at all useful in making a judgment, (2) Button B is almost impossible to identify, and (3) everybody has a different idea of where the button is, how hard to punch it, and how long to hold it down. Result C, even if it solves Problem A, will bring on two or more additional problems of equal or greater dimensions than the problem that was originally solved. This leads to an additional overreaction, creating Problems D, E, and F, all requiring the pushing of Button G. And so on through the alphabet, and then we get to Problem AA, and so on, ad infinitum.

In the very near future, the people of this nation will have their last chance to decide whether we want a free-market, free-enterprise, capitalist economy, or a socialist or fascist state. We must decide whether the business community is essentially good for America or bad for America. We have to decide whether profits are important to the creation of jobs and the general welfare of the economy or whether we should continue to confiscate most profits to support those who cannot or will not make a net contribution to the economy. We will have to decide whether "There oughta be a law" is an appropriate response for every human ill or a dangerous overreaction resulting in more evil than good.

Whether or not we decide in favor of freedom, we will be forced in the near future to suffer the consequences of the actions already taken. This nation is headed for a precipice, and it doesn't matter whether we go over the edge soaring with our foot on the accelerator or skidding with our foot on the brake. We are going over the edge, and it will mean some very hard years for a lot of Americans who are unwilling or unable to prepare themselves or, worse still, who do the wrong things out of ignorance.

I'd like to make some projections for the immediate economic future, partly based on the foregoing assumptions.

We will have mandatory wage and price controls. In the absence of statutory authority, all we have right now is government bullying, in an attempt to force business and labor to control prices and wages. The administration doesn't have the guts or the votes to get the necessary legislation from Congress, so it is using sheer intimidation—threatening boycotts, demonstrations, and public embarrassment—which, in my opinion, is an immense threat to the Constitution. The history of tyranny is the history of govern-

ments going beyond their statutory powers. Sooner or later, this process will culminate in some form of mandatory wage and price controls. This will create shortages, which will create more inflationary pressures and the impossible-to-predict distortions of black markets.

We also face severe energy shortages and soaring energy prices, also because of government interference in the free market. If natural gas and oil prices were deregulated we would bust the Arab oil cartel within six months; there would soon be a glut of natural gas and oil; and prices would fall. Because we are not deregulating, we are just going to have to accept the fact that the economy is faced with some rather dramatic distortions.

There will be much more inflation. Interest rates and inflation rates will both rise well above their 1974 peaks. How much higher, I don't know. The economy will turn down into a classic recession, out of which we will attempt to spend ourselves, and there is a 50-50 chance it will succeed one more time. If it does, then the economy will swing upward into the final inflationary spiral, which will result in destruction of the currency.

If that has only a 50-50 chance, what is the other probability? That they won't be able to spend us out of this recession, which will turn into a full-blown depression characterized by inflation—a totally different kind of a creature from the deflationary depression of the '30s.

HEADING DOWN OR UP?

In the hard-money camp, there is a massive debate going on today about whether or not the accumulated mass of debt will collapse, eliminating much of the money supply through bankruptcies, since most of the money is neither minted nor printed but is simply computer entries in banks in the form of loans to government corporations and individuals. The theory is that a depression causing major bankruptcies would eliminate much of the money supply, and because inflation is a monetary phenomenon, the result would be deflation.

I do not accept this point of view, although my mind is still open and I'm prepared to continue the debate with such stalwart defenders of this theory as John Exter, Vern Myers, and others. I believe that the same potential for bankruptcies and collapse of the bond markets existed in Germany in the 1920s, and the end result was inflationary, not deflationary, as government merely resorted to the printing press to replace the vanished money. I do not believe that government will allow massive bankruptcies. It will declare a moratorium on all debt and foreclosures before it could happen. Government can't do everything, but that is well within its power and will buy the time to bring the printing press to the rescue.

I have even constructed, in advance, the elaborate economic sophistry that will be used to justify the printing-press money. "There is slack in the economy, so it won't be inflationary." "It is better than allowing a collapse like the '30s. We would be remiss in our responsibilities if we did not prevent it." "It's the little people who will be going bankrupt; we must save them." And even perhaps the argument used in Benjamin Stein's book, *On the Brink*, "Inflation is good for the borrowers of this country who are mostly 'the little people' because they pay off their mortgages and other debts with cheap dollars."

PREPARING FOR THE CRASH

This economic recovery is the longest continuous expansion since 1854, and it is about to run out of steam. I believe that the recession will come with unexpected suddenness and that we will spend the first six months arguing whether we are in a recession, just as we did in 1973-74.

In my opinion, the great economic fact of our time for the foreseeable future will be *inflation*, and your lives must be planned on the assumption that "the money is going broke." I don't worry about whether my insurance company or my bank or the Social Security System will go broke. I am worried about the money with which my investments are defined losing value daily at an accelerating rate, faster than I am earning interest or dividends.

You don't have to look for the future to figure out whether I'm right. This process is in its early stages now. If you buy a 9 percent certificate of deposit from a bank or savings and loan, in an inflationary environment that is at this moment between 12 percent and 14 percent, you are losing at least 5 percent a year in purchasing power, and if you adjust for taxes on your interest, it's even worse. If you spend your interest, you are, in effect, consuming your capital; and your total loss of principal, if the interest has been spent, will be equal to the inflation rate—again, that's between 12 percent and 14 percent. If you have loaned money, long-term, to a bank, a savings and loan, an insurance company, through a Keogh plan, or whatever, you are someone else's inflation hedge, and that ain't no way to get rich.

I'm convinced that precious metals, collectibles, small-town real estate, and diamonds are the only sure, safe hedges during this economic spiral.

CAN WE SURVIVE?

I believe there's a special place in hell for the politicians who have made all the promises that have placed the nation in this position. Inflation is deceitful. Our budgeting process is deceitful. Most of the federal deficit is "off the budget." It consists of government guarantees and promises for the future, somewhere in the neighborhood of $7.5 trillion, which is greater than the value of everything that everyone in America owns. There is one chance it will be paid off. It will be liquidated, not through formal bankruptcy, but through the government's form of bankruptcy—inflation. Government will simply pay off with worthless dollars. And after all that debt has been liquidated, then there will be a monstrous deflation and a new system of some kind. At that point, my crystal ball gets cloudy.

The lesson of history seems to be that we do not learn the lessons of history. We seem to have to take this through a 50-year cycle, because it takes about that long for the negative forces to build up and liquidate themselves. We are nearing the end of such a 50-year cycle.

Free-market economics does a pretty good job of describing the problem, but it doesn't do a very good job of telling us how to get out of trouble. The reason for that is that once you have reached a certain point, there's no way of getting out of trouble without going through the trouble. It's very much like heroin addiction, in that you have to be willing to endure the withdrawal symptoms in order to get well. The withdrawal symptoms will be severe economic pain and dislocation, with the possibility of civil disorder and disruptions in our big cities. If you live in a small town, consider yourself fortunate. You will probably get through in very good shape. If you live in the United States, consider yourself fortunate, because when the United States gets a cold, the rest of the world gets pneumonia. We will suffer the least and we will be the first to recover and our institutions have the best chance of surviving.

Let's just hope that the right institutions survive; that when we've gone through this debacle the public will have awakened to the fact that it is government regulation, interference, and money creation that created this problem; and that we will go about dismantling the engines of inflation and repression. ◻

Howard Ruff is the author of the current bestseller How to Prosper during the Coming Bad Years. *He is the editor of* Ruff Times *and host of a TV interview show,, "Ruff House."*

If you have the capital and the constitution, here's a guide to commodity systems and advisors.

WINNING AT

COMMODITY FUTURES TRADING is "the fastest game in town," as one author so aptly entitled his book. It offers the speculator the highest stakes of any game available. Whether the economy is in an *in*flationary or *de*flationary trend, the futures markets provide us with one of our greatest profit-making opportunities. They are, literally, the markets for all seasons.

In the commodities game, success is richly rewarded and failure exacts its pound of flesh. If you have ever dreamed of making a fortune in commodities, though, be prepared to "pay your dues" first. Everyone does sooner or later. "The simple truth is that most successful speculators have been bloodied at least once before achieving success, but all have tried again" (*The Commodity Futures Game: Who Wins? Who Loses? Why?* Tewles, Harlow, Stone, 1974).

Since beating the commodities markets is probably the toughest business there is, it is an endeavor strictly for those with genuine risk capital and a hardy constitution. The more well-capitalized and disciplined you are, the greater your chances of success.

The nature of futures trading is such that your psychological makeup is critical, especially if you make the trading decisions yourself. Perhaps more than any other attribute, you must have the *temperament* for it. You must be willing to accept the fact that you may realize substantial losses. You'll be wrong more often than not. You'll experience strings of consecutive losses between profitable trades. You may experience strong emotions of elation and despair regularly as you ride the roller coaster markets.

DO-IT-YOURSELF

If you think you have the temperament and the genuine risk capital for futures trading, you need to figure out whether or not you will make your own trading decisions. Individual trading means a great deal of ego involvement and the gratification that goes with it. Unless you are willing to control your emotions when trading, you will eventually lose your shirt. You have to be able to let go of your need to be right all the time and to win all the time.

Individual trading involves emotionalism no matter how you slice it. When you trade based upon your own analyses, hunches, angles, or whatever, you are likely to discover a compulsive desire within you to rationalize your positions in the markets at every turn. It's you against the market, and *you* want to be *right*! As a result, with each adversity that you encounter, you will want to make the market wrong and write off unexpected occurrences as "temporary aberrations" that will eventually be overcome and prove you right.

Probably the single greatest reason why the vast majority of commodity futures traders are losers is that they allow their losses to accumulate and are eager to cash in their profits quickly. The Association of Commodity Exchange Firms pointed out in one of its booklets: "It comes easy to take a profit (this is a happy occasion). It is more difficult to take a loss (this is an unhappy occasion—one has to admit one is wrong). It is typical to feel that, when the market price is more against one's position, the market is wrong and will eventually correct itself to one's own estimate of the situation. So one holds on against a current trend: he lets his losses run."

Individual trading is normally done via price charts for the technically oriented speculator and via fundamental information for the speculator who prefers to interpret market factors. The latter is analogous to securities investors who rely on research reports about companies regarding their balance sheets, earnings, etc. Many commodity traders who choose to use their own judgment subscribe to advisory services, study research reports distributed by brokerage firms, and specialize in specific groups, such as the grains or precious metals markets.

There are several advantages to individual trading, as opposed to following a mathematical trading system or employing a professional commodity trader to manage your speculative capital.

- You have more flexibility and a greater degree of latitude.
- You are able to avoid more easily the erratic or especially volatile markets and restrict your trading to those with acceptable risk-reward trade-offs.
- You are able to trade more easily the counter-trend reactions within the direction of the primary trend and trade the market from one direction, that is, long or short positions only.
- You can design a trading plan that combines the market-fundamental outlook with technical action — a techno-fundamental approach — whereas mechanical systems generally ignore fundamental information.
- You can more easily change your entry points, stop-loss points, and price objectives. You can also more easily take your profits on the rallies and cover your short positions on the declines.
- You can trade the consolidating, choppy markets that are anathema to most mechanical systems, provided you are nimble enough to catch the swings within the trading ranges.
- You can analyze commodity price charts to identify trendlines, support and resistance levels, as well as volume and open-interest (number of contracts outstanding) patterns for market timing.

FORMULA FOLLOWING

Trading commodities via systems is essentially a mathematical approach, very often by means of a computer program. You can create your own trading system or subscribe to one offered by an advisory service. When you choose a mathematical system with which to direct your trading, you are opting for a *mechanical* approach. It will tell you what and when to

COMMODITIES

by E. Raymond Pastor

buy long and sell short and when to close out your positions.

The majority of computer systems incorporate trend-following approaches predicated on Newton's first law of motion, namely, "a trend once established is more likely to continue than to reverse." In conjunction with riding the trends, computer systems by and large use one or more moving averages (progressive means, that is, for mathematicians) to identify when trends are under way as well as when they are not.

The input to these systems includes such data as market prices, trading volume, and open interest (outstanding futures contracts, that is). These data are structured to create momentum oscillators, time cycles, or on-balance volume patterns, for example, as objective criteria to identify market entry and exit points. Some computer programs are very sophisticated, indeed. In fact, some even incorporate data on market fundamentals, such as seasonal factors, cash market activity, and other economic variables.

Employing a mathematical trading system will greatly reduce the emotional involvement in your trading. Its use, however, requires your confidence that it will ultimately prove to be successful. Needless to say, no system works all the time. In fact, few systems work *most* of the time. Consequently, when the system you choose to follow experiences a particularly difficult episode, you are likely to begin to lose confidence in it and abandon it for something allegedly better. What so often happens, however, is that if you had stayed with the original system, it probably would have produced for you. Again, you have an emotional involvement factor, and you end up not consistently following a system you had put your faith in and your money on. If it is to work for you, you must stick with it *consistently*.

SYSTEM PROS AND CONS

The mathematical system you choose to follow will not be infallible, of course, but it does offer clear advantages over individual trading. Its greatest strength is that it substitutes an objective strategy for personal judgment and emotional involvement in each trading decision.

- It imposes a discipline upon you because it is mechanical and thereby tends to greatly reduce the emotional and ego involvement in trading.
- It significantly reduces the risks inherent in commodity futures trading because it is likely to have you stay with the major trends and limit your losses when the markets do not move as expected.
- It diversifies your equity capital into several positions, thus reducing the risks of having "all of your eggs in one basket."
- It generates unequivocal signals for entering and exiting the markets, thereby eliminating the tendency to procrastinate about initiating or liquidating positions.

There are several disadvantages, however, to following a mathematical trading system, not the least of which is the tendency among many traders to stray from a sound method to something else during episodes of temporary adversity.

- Systems tend to work only some of the time because markets are likely to predominate in trendless consolidation patterns. Since the majority of systems are trend-following, they tend to fare poorly in congesting markets.
- Systems tend to overdiversify into several commodities markets without regard to their respective volatilities and point values, thus oftentimes absorbing large losses in some markets and making modest profits in others. There are significant differences in the risk-reward ratios among the various futures markets.
- Systems tend to apply the same trading strategy to the whole universe of markets, thereby ignoring the various technical personalities. There are some markets, that is, that tend to have sustained trends (e.g., gold) and others that have a history of volatile swings (e.g., silver).
- Systems tend to have you buying long and covering short positions in advancing markets and selling short or liquidating long positions in declining ones. As a result, unless there is a subsequent follow-through in the same direction, losses will occur.
- Systems tend to trade markets from both sides, that is, long-short-long-short. As a result, there will be many times that you will experience whip-sawing losses in trendless or choppy markets.
- Systems tend to be slow getting into new trends and getting out after the trend has reversed. Substantial, unrealized gains from open positions may erode before the trades are actually closed out. It is not uncommon for some trend-following systems to give back 20-40 percent of an unrealized profit before closing out after the trend direction changes, especially in fast markets.
- Systems are generally designed to trade several markets simultaneously and to accept many relatively small losses in anticipation of catching several major trends each year. Unfortunately, too often a trader's capital will be depleted as he plays for the big ones or, once having captured a major trending market, he finds that his profits barely make up for all the previous losses incurred in the attempt.
- Systems tend to do poorly in signaling market-entry and stop-loss points because so many of them use moving averages, which tend to have little to do with the actual support and resistance levels illustrated in commodity charts.

In sum, systems are used because they make commodity futures trading relatively effortless. The "computer" tells you when to buy and sell. You don't have to make any decisions—it is not yours to reason why, but to do. As a result, there is a trade-off of your judgment and control for a system of mechanical risk management.

CALL IN THE EXPERTS

The third way to play the game is to opt for professional management, employing a pool operator, a registered commodity advisor, or a commodity broker to manage your commodity capital on a *discretionary* basis. Once you have agreed to the general features of the account, you have nothing whatsoever to do with the day-to-day trading or money management. You

(*Continued on p. 51.*)

MONEY REALLY MATTER$

by David E. Rhoads

Prices have been increasing faster than the money supply—but a closer look at the data proves that Milton Friedman was right all along.

TWO "AXIOMS" OF ECONOMICS have always seemed to make a lot of sense. One, the quantity theory of money, relates changes in the price level to changes in the quantity of money available to the marketplace. The other says that government mishandling of the economy is the root cause of inflation. Unfortunately, experience in recent years has tended not to support the first axiom: growth in the normal measures of money supply has not kept pace with prices. And if that's true, then the other axiom—because government has so much to do with the money supply—may be wrong too.

Differential growth rates have become pronounced over the last five years. The Consumer Price Index has grown 46 percent while the *M*1 money supply has expanded only 31 percent. This means that prices increased almost half again as fast as the *M*1 money supply—not a very convincing statistic in support of the quantity theory of money.

True, a change in the trend of *M*1 growth correlates well with changes in price levels, but that's not enough to prove the proposition. Moreover, "lead/lag," "*M*2, *M*3, etc.," and similar refinements sound more desperate than valid.

So, should we abandon these two honorable economic theories? No! They make too much sense to be in error. There must be something wrong with our proof. And indeed there is.

EXPLODING DEBT

We've been working with an unduly restricted definition of money. To find proof for our propositions, turn to Milton Friedman's observations in *A Monetary History of the United States*. There he says that money is basically "a temporary abode of purchasing power enabling the act of purchase to be separated from the act of sale." Later, he alludes to the growth of money substitutes in the United States after World War II. And, interestingly, throughout he measures money in terms of debt—as a store of value for creditors.

Friedman's definition implies that all temporary abodes of purchasing power are potential money. And changes in our debt and money markets since World War II have converted *all* forms of debt into short-term parking lots for cash. So we can conclude that we've mobilized our debt—we've effectively *activated* all that potential money. The result has been an exploding "debt-money" supply and to-

photo by Suzanne Frank

day's inflation.

Mobilizing debt and converting it to money has become a major national pastime. Consumer finance companies borrow against short-term debentures to fund intermediate- and long-term auto loans. Lending institutions collect home mortgages, create "pass-through" vehicles they can sell in bond-like markets, and thereby mobilize that sector of debt. Large, efficient bond markets permit the acquisition or unloading of 30-year obligations in a matter of minutes. Bond and money funds buy 6-month to 30-year obligations with money that can be called away in an instant by a fund holder's check. Government agencies borrow to make a market in vehicles like farm mortgages that might not otherwise trade on their own. Or the government guarantees loans that might otherwise be refused by creditors.

All of these devices, and more, convert debt to short-term instruments that can be instantly switched into cash or demand deposits—perfect examples of Friedman's money substitutes. In fact, today's debt instruments are frequently traded directly for goods. Set up a commodity account with a T-Bill. Trade a second mortgage for a house. Find out just how much of a money supply *you* can mobilize. You'll be amazed.

As debt became money, velocities increased dramatically (Friedman said they would). And that's why demand-deposit turnover has gone through the roof: nobody leaves idle funds in checking accounts or cash any more. They exchange them for interest-bearing debt, instead.

UP, UP, AND AWAY

Furthermore, our borrowing and therefore our debt/money supply have expanded without hesitation over the last 30 years, and they've done it faster than the supply of goods moving to market. That's why the Consumer Price Index has expanded through recessions as well as booms, through periods of constant *M*1 as well as accelerating *M*1 growth. And that's what revalidates our quantity theory of money. Some graphs will help to illustrate these points (see pages 40-41).

Graph A shows the growth of all nonfinancial debt/money in the United States. The two major sectors are private debt, 71 percent of total, and government debt, 27 percent of total. The remaining 2 percent is currency and coin.

The *M*1 money supply is shown for reference. Financial debt is omitted since financial intermediaries merely convert debt; they don't create it. For example, banks convert deposits into nonfinancial business loans. To prevent double counting, then, the financial debt must be left out.

Notice that our debt/money supply has increased geometrically since 1940. Debt that totaled less than $200 billion that year mushroomed into obligations of nearly $4 *trillion* by 1977. Also, notice that *M*1—that "converted" debt/money most available to the banking system and therefore most amenable to manipulation by the Federal Reserve System—has not kept pace. By 1977 it dwindled to less than 9 percent of the total.

There's another form of debt that has intriguing implications for our future, but I've omitted it here. I'm referring to unfunded forward obligations such as Social Security, government pensions, and private retirement programs. This would add another $7,392 billion in obligations to our graph for 1977, bringing the total to an astounding average of $50,000 in obligations *per person* in the United States. The effect of unfunded obligations on the creation and disposition of "hard" debt is poorly defined, however. Besides, the nation seems to be preparing to default on those obligations, so they may not affect us even in the future.

CREDIT CRISIS

Graph B recaps the major components of our debt/money supply at the end of 1977. You'll notice that this graph really highlights the debt aspect of our money supply. It makes immediately apparent the fact that the stability of our money supply depends *directly* upon the creditworthiness of those who take on debt. If a

borrower can't service a debt, his whole portion of debt/money may dissolve in bankruptcy. If a lot of borrowers suddenly can't service their debts, a major portion of debt/money disappears, and the event is called a credit crisis.

It's also apparent that the future growth of our money supply is limited by our borrowing capacity—or our willingless to indulge in funny-money schemes, such as food stamps and inflation of currency and bank money supplies. In short, if we don't monetize both public and private debt, there's a real limit to how much debt/money we can generate.

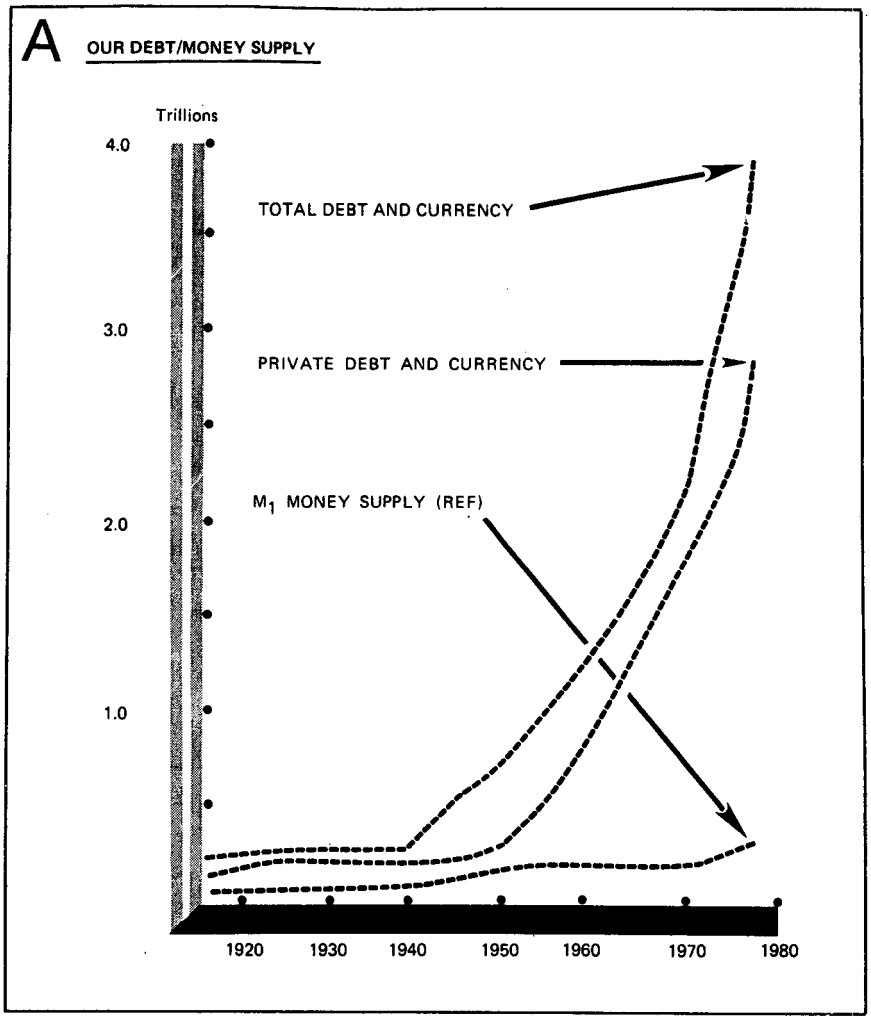
Some consequences of today's exploding debt curve are shown in Graph C. The typical money-supply measure, *M*1, is shown at the bottom (Curve 1). Private debt + currency and total debt + currency (Curves 2 and 3) show how our main money substitutes have grown since World War II. (The difference between the two is government debt.) Notice that total debt has expanded at a rate substantially higher than that of *M*1. This means that the economy is generating money faster than the banking system.

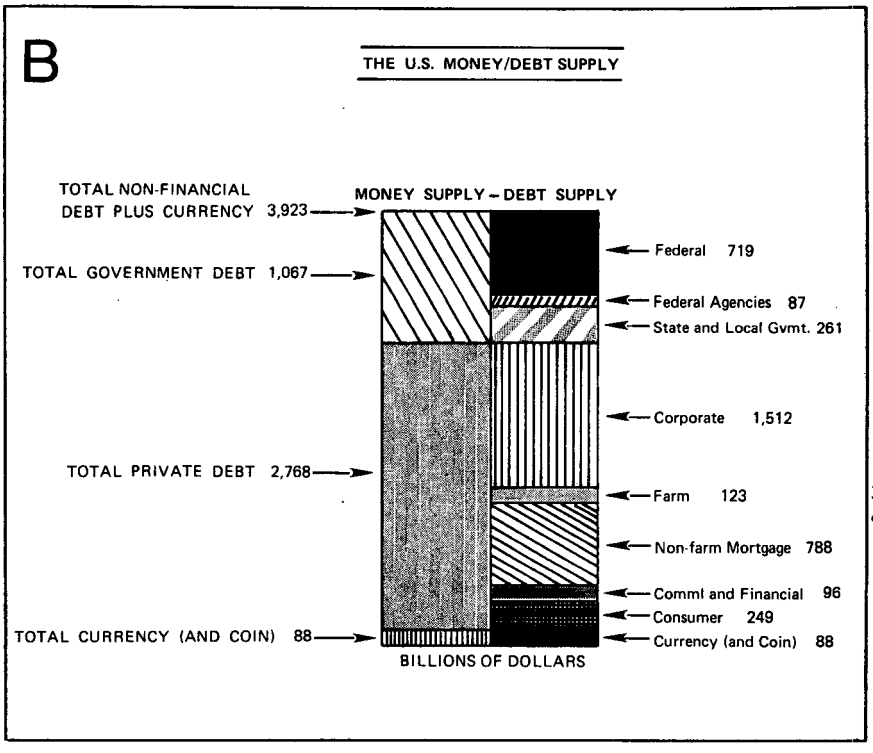
ON TO RECOVERY

Prior to World War II, the expansion process would end periodically. The ratio of debt/money to real production seemed to center on the one-to-one level, with the market carrying about a dollar of debt or currency for every dollar of real product generated each year. Times of speculation produced higher rates and higher prices (1920-21 ran to $1.10), while times of adjustment produced lower rates and lower prices (1939-42 ran under $.90). But, excesses in either direction seemed to correct themselves. (One exception to this was 1930-33, when production collapsed at a much faster rate than the debt/money supply; however, that incident was precipitated by the Federal Reserve's catastrophic mishandling of a credit crunch and should be considered an anomaly.)

The excessive-expansion syndrome used to be corrected by massive destruction of debts. The process was almost automatic once it got under way. At some point in an expansion, creditors would begin to doubt the strength of the debts they held. Some would begin to sell their holdings for cash (their "liquidity preference would shoot up," to use one of Arthur Burns's favorite euphemisms). In time, others would notice and would decide to cash in too. The resulting demand for cash would greatly outstrip supply, and for those still holding debt, the run was on. In the process, prices would collapse.

Lack of cash to convert debt induced bankruptcies and failures. Banks broke right along with everything else. And debt was destroyed apace. But the credit col-





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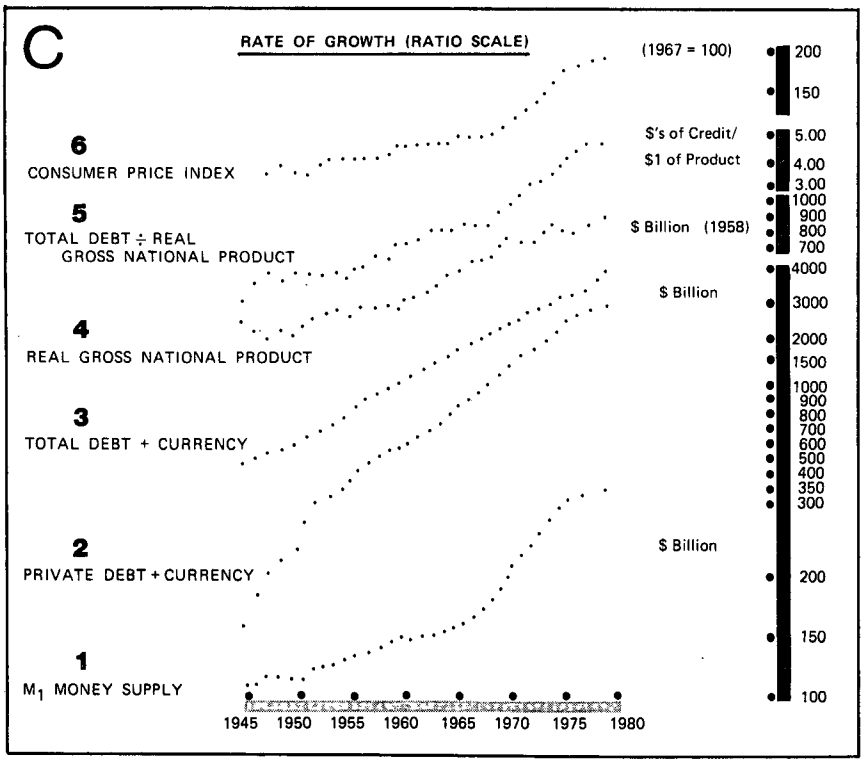
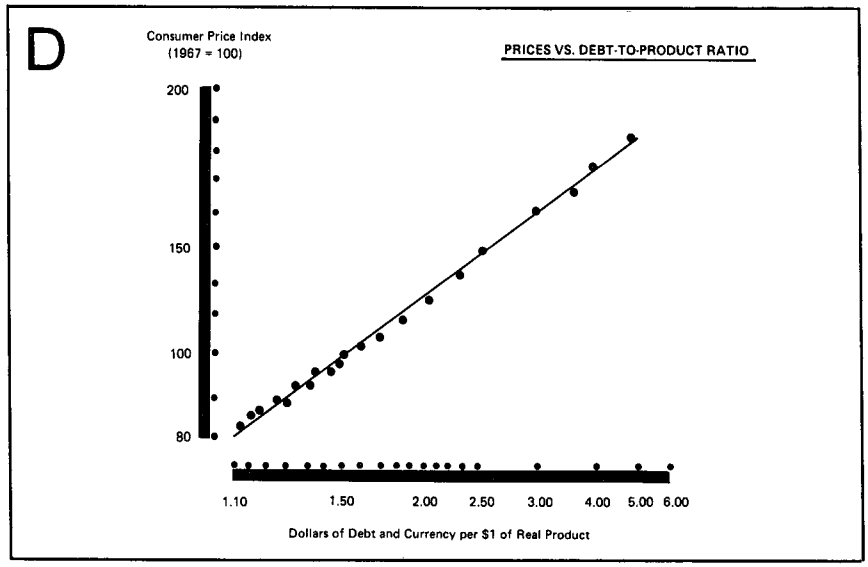




lapse would quickly run out of shaky debt to destroy, the credit implosion would end, and recovery would begin.

As you can imagine, this destruction of debt was traumatic for creditors and bankers. It was because of their trauma, in fact, that the Federal Reserve System was established in 1913. And after a few false starts (notably the depressions of 1920-21, 1923-24, 1926-27, 1929-33, and 1937-38), it finally got its act together, learned to provide *unlimited* reserves in a credit crisis, and has ever since successfully nipped them in the bud.

Now look at Curve 4, real gross national product. This, a measure of the quantity of products created in the economy each year, is growing at a slower rate than the total of debt/money. (Debt/money is increasing faster than the supply of goods.) Curve 5, the ratio of total debt to real gross national product, compares the two. It shows how an increasing number of debt/money dollars have been chasing each dollar of real goods since World War II. According to the quantity theory of money, we should expect this to drive up the price of goods, and indeed it has. Curve 6, consumer price index, parallels the comparison of debt to real product almost perfectly.

This relationship stands out starkly in Graph D, prices vs. debt/money-to-product ratio. Here the annual excess in the number of dollars of debt and currency over each dollar of real goods produced is compared to the index of consumer prices. The resulting pattern indicates a strong correlation. Not only that, but the correlation line is at a 45-degree angle between the two variables. This means that a creation of more debt/money than real production drives surplus dollars right into price increases. This, then, is what's powering today's price inflation—excessive growth in our debt/money supply.

The process even feeds on itself. As prices climb, people develop more equity in their properties to borrow against. Their "loan-ability" increases. Many succumb to temptation and borrow to raise their consumption levels, to "invest" in other properties, or to speculate with, thereby driving prices even higher. Conversely, those who don't speculate or "invest" usually end up having to borrow against their appreciating equities anyway, just to cover an expanding gap between prices and income. This validates the rise in prices. And the process rolls on a while longer.

PUSHING CREDIT

As luck would have it, the Fed has not had to go it alone in the crunch-avoidance process. Government has helped. Whenever a substantial borrower has shown signs of impending default, Washington has swooped in with direct aid (farmers) or guarantees (Lockheed).

In fact, government now steps in whenever the debt/money generator merely looks as if it's slowing down. Federal agencies borrow at special rates and relend to people who might not otherwise qualify for credit. Loan guarantees induce creditors to loan more to marginal borrowers. Outlawing of "redlining," "sexist" credit discrimination, and other credit practices insures continued or new sources of debtors.

Or if it looks as if nothing else will keep the generator going, government steps up its own borrowing and spending and subsidizes that of other debtors. Direct subsidy of house payments, doctor bills, and food purchases keeps debtors—and thereby the whole money and credit system—afloat. Indirect subsidies such as the granting of tax deductions for interest payments and taxes on real estate add new glow to dying credit areas and keep the speculating and borrowing going.

But most important of all, the old barrier to the creation of money—the gold-backing requirement—has been removed. Now there's no limit to the creation of cash and reserves in case of a credit crisis and a run. Now the sky's the limit for creating debt/money.

All this government intervention—through the Fed; through credit supports, payment guarantees, and subsidies; or through removal of barriers to the creation of debt/money—has kept the debt/money supply expanding. In this way, our government has effectively kept the inflation fire going. And that proves our second economic proposition, that government mishandling of the economy is the root cause of today's inflation.

DEBT MOUNTAIN

The upshot of all this is that we've created the biggest debt/money mountain in history. That's what the curve in Graph A is—a mountain of debt. And it's fast becoming unsustainable.

By the end of 1977, we achieved $4.49 of debt/money per $1.00 of real production—the highest rate in history. We got there by sucking into our debt/money whirlpool the world's most marginal borrowers. Then we loaded them with even more credit.

Now, today's debtors have reached their absolute borrowing limits. That's what the money and credit problems around the world mean: our mountain of loans is turning sour. It's being transformed into a pile of pending adjustments—failures, defaults, and bankruptcies.

The mountain is an avalanche in waiting. If it ever lets go, the economy might even snap back to its old level of a one-to-one ratio between debt/money and real production. This would mean a collapse of 75 percent of the nation's debt and credit. Of course, prices would fall that amount too—but we tend not to think about that so much when we're going down the credit tubes.

Our situation has not gone unnoticed by the Fed. In fact, since the late '60s it's been trying to defuse the credit-collapse potential of our debt/money supply. By steadfastly refusing to provide *all* the cash and demand deposits the economy *wanted*, it's kept the credit-expansion process from rolling on at the rate that it wanted.

That's why *M*1 growth has not matched the expansion of debt or prices in recent years. And that's how we have achieved the highest bankruptcy level in history during a historic inflation—a unique achievement. (Liabilities of companies that failed reached $4.5 billion in 1975—the highest ever—and they've held near there ever since.) In essence, the Fed's trying to pull off a slow-motion crash, to let a few rocks go while it holds the bulk of the avalanche in check.

Unfortunately, they're not making much real headway against "Debt Mountain." Whenever they get the process rolling toward a really good debt-destruction derby, they lose their nerve and pull back. Not only that, but government gets scared early and begins pulling out all its debt encouragement stops. So while the Fed's trying to let loose a few boulders at the bottom of the pile, government—by increasing its borrowing, spending, and encouragement of more debt—adds more boulders at the top of the pile. And the mountain grows and grows and grows.

This leads to wild swings between incipient collapse and incipient hyperinflation—to a spastic economy. Each spasm catches a lot of people and companies in the wrong investment posture, and they join the bankruptcy statistics. Also, each swing carries with it the potential for being the last spasm. Each swing just might be the one that will go too far, the one that will split the very fabric of our economy, wiping it out once and for all.

Likewise, so long as we *don't* have a terminal swing, none of the oscillations will run its course, none will be permitted to flush out the economic system, so they'll keep on coming around.

IMPENDING DISASTER

When will all this end? Not a soul alive knows the answer to that. There's not even anyone who can tell which oscillation—either inflation or credit collapse—will finally do the dirty deed and end our game. That's why we have so many, varied, and extreme economic forecasts today.

But I suspect that the final resolution is not far away. Our debt structure is exceedingly tired, and we're running out of options with which to keep the game going. Over the last generation we've pulled about all the tricks we could devise to maintain credit expansion. Just about everyone who can, has borrowed. And public feeling against further government credit inducements, loan guarantees, and subsidies is mounting daily, so it seems like we're very close to our absolute borrowing limit.

At the same time, we've run out of slack in the bank/money machine. Our economy is so tight now that it will immediately convert any excess cash or demand deposits into a self-sustaining speculative boom. And that would mean even greater price increases, with still more debt and all that that entails.

This, then, is where a lifetime of good intentions has led us: to a minefield of potential disasters. We can't stand still, but the further we go, the less margin for error we have left. By solving only one side of the old credit-cycle problem (the credit-collapse side), we've let the other side (the credit-expansion side) run until it threatens to destroy us.

What will happen, of course, is that someone will make a fatal error. On one of the economic oscillations, somebody will zig when they should have zagged, and our economy will come apart like a cut golf ball.

DISASTER PROTECTION

You might think about taking some precautions in your business and personal investing. Start with the ancient and honorable technique of getting liquid. Convert your assets into stocks, bonds, or commodities that can be exchanged quickly should the market suddenly let go.

Then diversify. That way, if a crisis rotates through one of your investment areas without warning, you won't lose everything. This means you should hold some cash as well as gold coins, some stock as well as some T-Bills, a domestic savings account as well as a foreign annuity, etc. Just be sure not to diversify into another illiquid area. Stay in investment vehicles whose prices can be checked in the newspaper each day (or at the broker's office), things that can be sold at a moment's notice if need be.

Watch demand deposit turnover statistics in the *Federal Reserve Bulletin*. They've been climbing almost vertically for several years now. They tip off the viability of money substitutes. When they break and head south, the funny-money game will be over. It will be time to head into real cash.

Watch the monetary aggregates for sudden change. They have been trending, especially the monetary base, for years now. A sudden change upward would indicate increased inflation of the money supply. Level or downward breaks would indicate potential deflation.

Watch short-term interest rates. A blow-off (upward spike) might verify a credit crisis. Conversely, a precipitous drop would accompany a forced-draft expansion of currency and demand deposits. Or it would verify a credit collapse. (Look to monetary aggregates to determine which.)

Watch prices for goods and services. If they race too far ahead of the money supply, they'll precipitate a recession and a potential credit crisis.

Above all, be nice to your boss. This is definitely *not* the time to have to go looking for a new job. ◻

David Rhoads is a writer and an investment advisor and consultant with a background in business economics. He is the author of How to Survive a Spastic Economy.

THE COMING BULL MARKET IN US COMMEMORATIVE COINS

by Walter Perschke

US COMMEMORATIVE COINS probably represent the greatest potential for profit in the coin market today. I seldom make near-term recommendations in coins, but if I had to choose a single series in which the leaders stood the best chance to double in the next two years, it would unquestionably be US commemorative coins in general and those mentioned in this article in particular. The "commems," as they are called in the trade, are genuine, legal-tender coins minted by the US government. Their attractiveness for medium- to long-term investment is based on low mintages, high quality (brilliant uncirculated condition), wide dispersion, low risk, and proven demand.

Three years ago, when I first began writing about commems, price dormancy was listed among their advantages, but that is no longer the case. After five years of slumbering, interest in US commemorative coinage has finally perked up. The long-time lid on commem prices is off, and further increases are ahead. Market leadership rotates in any investment area, and numismatics is no exception. I believe the commemoratives will assume that leadership this year and maintain it for two, three, or more years.

There are two basic investment strategies that can be used successfully in stocks, commodities, or coins. One is to buy undervalued issues that have been dormant in price and to wait until the public recognizes their value or until they come into favor. The other is to get in on a trend early and ride it up. The latter is generally the most profitable and makes the most efficient use of capital. Unfortunately, it is also the most difficult to follow in the coin market, because the coins may simply not be available. The trend in the commems is now clear. Although we are still early in the bull market, it will be increasingly difficult to find any quantity of the coins with the best potential. For this reason and because I feel strongly about the future of the commem series as a whole, my list of recommended issues is extensive.

In sharp contrast to the commemorative coins, but perhaps better-known to the non-numismatic public, are the commemorative bars and medals issued by private mints. These are not coins, and their limited-edition status is an illusion. Although last December's "60 Minutes" exposé of the principal manufacturer of limited-edition silver bars has dampened speculative buying, many would-be investors who purchased these items because of silver's potential for higher prices have watched their bars decline in price while silver rose.

The limited-edition fallacy has probably lured more dollars away from an uninformed public than any other single propaganda idea since Ponzi schemes. The theory is that by limiting the supply of a particular issue, an investment winner is guaranteed. In fact, sales are limited only by the number of persons foolish enough to put their money into another "get rich quick" scheme. The larger manufacturers have done sophisticated market research and know within tight tolerances the size of their potential market for any new item. This allows them to promote effectively, while limiting production of each issue to the size of its probable market. Consequently, the real market is properly saturated at the time of issue, and the illusion of the limited edition is perpetuated.

The problem for the buyer is that a secondary market for the private mint issues is virtually nonexistent. The forced sellers, who appear in any market, have found that the first tick down is a long one indeed. The manufacturers have chosen not to provide an after-market for their wares. Often, local coin dealers are the bearers of the bad news that the holders of limited-edition bars or medals can sell them only at intrinsic metal value, typically 10-50 percent of cost.

WHY COMMEMS?

The US commemorative coins are the genuine limited editions of today and the prime candidates for price appreciation in the future. In addition to their low mintage, they have the benefit of at least 25 years of market "seasoning," a historically proven collector and investor demand, and a broad, organized, and international market. If 10 percent of the money that has been spent in the past several years on the "instant rarities" issued by private mints were put into US commemorative coins, prices would double overnight, or perhaps triple or quadruple. This explosive potential for a multiple of current prices is unmatched in the numismatic market today.

As collector demand for the commems increases, the original low-mintage figures will act as a ceiling on the available supply, and prices will rise accordingly. Most of the commems have mintages under 25,000, and some as low as 2,000. These are miniscule quantities when compared to circulation-issue coins. For example, the Walking Liberty half series, minted from 1916 to 1947, a time period comparable to many of the commems, generally has mintages in the millions. The lowest-mintage coin of the series, the 1921-D, has a mintage of 208,000 and a current wholesale price of $2,750 in MS-65 condition. Silver commems of

TABLE 1

		Mintage	Wholesale Price*
1893	Isabella Quarter	24,214	$490
1921	Alabama 2 x 2	6,006	465
1936	Albany	17,671	155
1937	Antietam	18,028	224
1935	Arkansas PDS Set	5,505	155
1936	Arkansas PDS Set	9,660	150
1937	Arkansas PDS Set	5,505	185
1938	Arkansas PDS Set	3,155	348
1934	Boone	10,007	72
1935	Boone PDS Set	5,005	178
1936	Boone PDS Set	5,005	178
1937	Boone PDS Set	2,506	450
1938	Boone PDS Set	2,100	845
1936	Bridgeport	25,015	91
1936	Cincinnati P, D or S	5,005	275
1936	Cleveland-Great Lakes	50,030	46
1936	Columbia PDS Set	8,007	535
1935	Connecticut	25,018	160
1936	Delaware	20,993	133
1936	Elgin	20,015	123
1936	Gettysburg	26,928	185
1922	Grant—with star	4,256	910
1936	Lynchburg	20,013	122
1934	Maryland	25,015	103
1938	New Rochelle	15,266	243
1936	Norfolk	16,936	215
1928	Oregon Trail	6,028	195
1933-D	Oregon Trail	5,008	205
1934-D	Oregon Trail	7,006	162
1936	Oregon Trail	10,006	92
1936-S	Oregon Trail	5,006	167
1937-D	Oregon Trail	12,008	85
1938	Oregon Trail PDS Set	6,005	385
1939	Oregon Trail PDS Set	3,004	525
1921	Pilgrim	20,053	135
1936	Rhode Island PDS Set	15,010	255
1937	Roanoke	29,030	96
1936	Robinson-Arkansas	25,265	70
1935	Texas PDS Set	9,996	167
1936	Texas PDS Set	8,911	160
1937	Texas PDS Set	6,571	270
1938	Texas PDS Set	3,775	450
1951	Booker T. Washington PDS Set	7,004	92
1951	Washington-Carver PDS Set	10,004	59
1952	Washington-Carver PDS Set	8,006	96
1954	Washington-Carver PDS Set	12,006	58
1936	Wisconsin	25,015	110
1936	York County	25,015	$106

* Prices subject to change.

TABLE 2

		Mintage	Wholesale Price*
1903	Louisiana Purchase/Jefferson $1	17,500	$580
1903	Louisiana Purchase/McKinley $1	17,500	580
1915-S	Panama-Pacific $1	15,000	685
1916	McKinley $1	9,977	575
1917	McKinley $1	10,000	675
1922	Grant $1 no star	5,000	1,300
1922	Grant $1 with star	5,016	$1,300

* Prices subject to change.

much smaller mintages are available in the price range of several hundred dollars per coin. Many more such examples abound.

Although the commems were minted by the US government, they were generally distributed by private groups sponsoring an event or memorial. With each design authorized by Congress under special legislation, these coins were sold by the Mint at face value to the sponsoring group. This group then resold the coins to the public at a premium in order to raise funds for a fair, festival, or monument. The commemorative coins provided a mechanism by which the government could support what were considered worthy causes without expending tax monies, and they offered the public a chance to contribute to the projects voluntarily.

The first US commemorative was issued in 1892 for the Columbian Exposition World's Fair in Chicago; the last, in 1954 in honor of Booker T. Washington and George Washington Carver. The aesthetic and historical appeal of these coins contributed to demand in times past, as it does today.

Our investment selections are based on mintage, current price, and price history over the past five years. There is by no means a simple inverse relationship between mintage and price, and thus the concept of relative value is essential. As some coins within a series appreciate faster than others, there will follow a correction in which relative values reestablish themselves, either by an increase in price of the laggards or a sell-off in the high flyers. In the coin market, the former tends to predominate. Accordingly, we have looked at the below-average performers first and chosen a diversified list of recommendations.

Hand-in-hand with these statistical tools, I have relied on my own experience buying commems for clients, including market availability, demand, and condition over the past 15 years. If a high proportion of a given commem appears in circulated condition, this implies that a smaller percentage of the mintage is still available in uncirculated condition. The relationship between a given coin's market price in circulated and uncirculated condition is also significant. A high circulated price for the coin indicates that not many of that issue reached circulation and also puts a floor under the uncirculated price for the coin. Another consideration, relevant in only a few cases, is the existence of hoards that might act to depress prices.

WHICH COMMEMS?

Silver. The affordability of silver commems for most individuals will make a

major contribution to future price growth. This is a market where the investor with as little as $500 or $1,000 can achieve some diversification, although there are also opportunities for those with more money to invest.

All of the silver commems have the 50-cents denomination except for the 1900 Lafayette dollar and the 1893 Isabella quarter. There are a total of 144 coins in the complete silver commemorative set, which includes all dates and mint marks and is currently trading at $20,500 wholesale in BU-65 condition (see below). In addition to those who put together compete sets, many people collect silver commems by type. Type collecting includes one example, generally the least expensive, of each major design. There are 50 different designs of the silver commems, and the typeset is currently trading at $9,600 wholesale.

After five years of slumbering, interest in US commemorative coins has finally perked up.

Many of the silver commems were minted and sold as PDS sets, which include one each of a given design minted at the Philadelphia, Denver, and San Francisco mints in the same year. While some of these sets were broken up, there is a natural tendency for individuals and dealers to keep the sets intact, thus reducing the supply of that issue available in the market. As above, the 144-piece complete set would include all three coins of each PDS set, but only one coin of each design would be used in the 50-coin typeset. Where PDS sets are recommended, smaller portfolios may choose to include only a single coin of that type.

The issues listed in Table 1 are recommended for purchase at this time and can be expected to outperform the commem series as a whole. (Space considerations do not permit a discussion of each individual coin here.)

Gold. Currently trading at $11,250 wholesale in BU-65 condition, the gold commem set contains 11 coins. They are all $1 denominations except the $2½ Panama-Pacific and Sesquicentennial. Although some of these coins have been circulated or placed into jewelry, probably 80 percent of all the gold commemoratives are still retained in uncirculated condition. The gold commems received a wider distribution than the silver. Because of their higher face value and issue price, along with generally lower mintages, the gold coins tended to go into individual collections rather than into accumulations of quantity as some of the silver commems did. Consequently, no single holding is liable to appear and seriously distort the market price.

The low mintage of the gold commems relative to their current prices is dramatically illustrated by a comparison with circulation-issue gold coins. The common-date $1 gold coins in MS-65 condition are currently trading around $975 in the wholesale market. The least-expensive uncirculated US gold coin is the $5 Liberty, currently trading around $200 in MS-60 condition. Since over 8 million of this type were minted, the two Louisiana Purchase commems with mintages of 17,500 each and a wholesale price of $580 in MS-65 condition look like excellent buys.

Over the next three to five years, I believe the gold commemoratives listed in Table 2 will show above-average appreciation.

BUYING TIPS

The recommended commems should be purchased only in MS-65 condition. This is shorthand for "Mint State 65" and is also referred to as BU-65 or simply 65. It refers to a 70-point grading scale where 70 is perfect, although virtually no coins are MS-70. The numerical grading scale generally uses five-point intervals, down to the 12-point level. MS-65 is the high end of the uncirculated range; MS-60 is the low end.

Within the uncirculated category, there are substantial differences in price and appearance depending on the quality of the original impression and on the handling of the coin after it left the Mint's presses. An MS-65 coin is distinguished by a strong "strike" (impression) and a minimum of "bag marks." Bag marks are surface abrasions caused by coins jostling against one another during the minting process or the shipment of coins in bags. All coins, except for the few rare MS-70s, have some bag marks. In my 15 years of dealing in coins, I have seen only three collector coins that I would rate MS-70. MS-65 coins are the highest condition generally available and are considered the "top of the line."

The prices quoted here are wholesale prices for coins in MS-65 condition. They are subject to market fluctuations and do not include commission. When you purchase coins, request an itemized invoice listing the grade of each coin and the price paid. Also, request a written guarantee that the coins are genuine. These are reasonable requests, and you should only do business with dealers who are willing to comply with them.

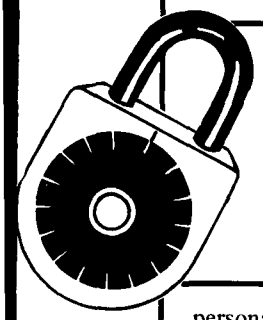
Counterfeits of the following commems have been seen: 1936 Cincinnati 50 cents, 1928 Hawaii 50 cents, 1900 Lafayette $1, 1903 Louisiana Purchase/McKinley $1, 1917 McKinley $1, 1915-S Panama-Pacific $1 and $2½, and 1926 Sesquicentennial $2½. These counterfeits can be distinguished from genuine coins by proper inspection. It is important to deal only with established reputable dealers and to obtain a written guarantee of authenticity. Counterfeits are not prevalent, but they do exist. For every person I know who has inadvertently purchased a counterfeit, I know 20 who have been frightened away from coin investment by the threat of counterfeits and have thereby missed out on the real profits in rare coins.

US commemorative coins are the genuine limited editions of today.

There are two certification services that will authenticate your coins for a modest fee based on the value of the coins: American Numismatic Association Certification Service (818 North Cascade Ave., Colorado Springs, CO 80903), and International Numismatic Society Authentication Bureau (P.O. Box 19386, Washington, D.C. 20036). A primer on counterfeit detection is available in my article, "Detecting Counterfeit Coins," REASON, June 1976.

With these commonsense precautions and the help of a reliable and experienced dealer or broker, you can take advantage of the coming bull market in US commemorative coins. Although there are many excellent areas for profit in rare coins, the advantages I have outlined make the commemorative my first choice in an opportunity-packed field. A few individual issues have already done well, but the series as a whole has not moved up yet with much vigor. Therefore, I believe the major increases are still ahead. Select and purchase what you can afford, and hang on for the ride.

Mr. Perschke is president of Numisco, Inc., a rare coin brokerage firm. He also publishes two advisory services, the Numisco Letter *on rare coins and the* Independent Speculator *on foreign currency and precious metals trading.*



PROTECT YOUR CACHE

BY MARK SKOUSEN

WHAT HAVE you got to hide? *Plenty!* Do you want government agents, jealous relatives and neighbors, high-pressure salesmen and creditors, or professional thieves snooping into your financial affairs? Obviously not.

Yet your financial and personal privacy are more and more threatened as we move to an increasingly government-regulated society. Government, corporations, and the press intrude on every aspect of our financial lives. Hidden cameras monitor your every move in banks, supermarkets, and airports. Your baggage is searched when you travel. Your Social Security number is linked by computer to massive files (over 50 files are kept on every American). Every time you write out a check, or use your credit card, records are made—and are open to the scrutiny of the government. No wonder Harry Schultz has warned that "privacy from government is perhaps the most important thing in life right now!"

You must act now to preserve your financial anonymity. Will you be prepared when a 1984-style government reimposes foreign exchange controls, gold confiscation, exorbitant taxation, and political harassment of "mavericks" who choose to hoard gold, firearms, and food and stash away money in secret foreign bank accounts?

Government is surely the worst offender against privacy, with its ferocious appetite for collecting details on every aspect of a person's life. The primary force contributing to this massive invasion of privacy is, of course, taxation at all government levels. April 15 is a day of infamy when it comes to the government's prying into intimate personal and financial affairs.

Today the federal Form 1040 asks your full name, home address, name of spouse, Social Security numbers, names and ages of your children (never let a future taxpayer go undetected), your occupation, and whether you support the political establishment (the $1 presidential campaign fund). When you itemize your deductions, you reveal the names of charitable organizations, how much gasoline you use, whether you own or rent your home, personal health problems, and the kind of educational classes you take. An IRS agent acquires an intimate profile of your life by examining past 1040s. As one in millions, you may not be too concerned, but perhaps the day is not far away when your profile will be stored on and retrieved from a computer file.

Fortunately, the White House recently decided to scuttle plans for a nationwide IRS computer to monitor taxpayers because it would be "a threat to privacy and civil liberties." The $850 million program involved a huge data-processing system with 8,300 terminals stationed in IRS offices across the country, where over 48,000 IRS employees would have had access to the detailed records of individual taxpayers and corporations.

Despite constitutional guarantees, the IRS has enormous power to audit taxpayers—a power that instills great fear in the hearts of all citizens—as well as the ability to spy on American taxpayers. For years, the IRS had a "secret" handbook used by special agents to track down suspected tax evaders. Through the Freedom of Information Act and a favorable court decision, the IRS was forced to release this secret manual to the public. ("The Handbook for Special Agents" is now available from the Government Printing Office.)

What does this IRS handbook reveal? Here are the highlights:

First, virtually all financial records are open for inspection, whether they be Social Security records, military files, accountant's records, or bank statements. In the case of bank records, Congress recently passed the Financial Institutions Regulatory Act, which requires the IRS—and other federal agencies—to notify you *before* examining your bank records, giving you 14 days to fight the summons in court. Despite this measure, few if any taxpayers have kept the IRS from examining their bank records. In fact, a federal court recently ruled that the IRS isn't required to show "probable cause" in requesting bank files! (Has the judge forgotten the Fourth Amendment?)

Second, your constitutional rights are severely limited, applying chiefly to criminal audits only. Try pleading the Fifth Amendment during a *civil* audit—the IRS field auditor will simply disallow all your deductions!

Third, a victim of an undercover agent or paid informant need not be apprised of his constitutional rights.

Fourth, CIA- or FBI-like methods, such as the use of invisible powder on documents and telephone surveillance, are permitted by special agents.

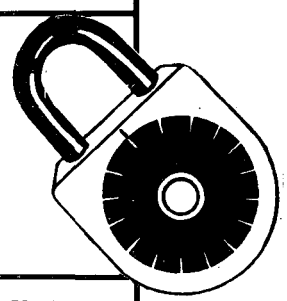
Fifth, you may be guilty until proven innocent. For example, if you choose to fight the IRS in federal court instead of tax court, you must pay the tax first and then sue the IRS. In the case of a "jeopardy assessment," where the IRS expects you to leave the country suddenly or conceal assets, the tax authorities can freeze your bank or brokerage account, place a lien on your home, and impound your car, *without a court order.*

Finally, the IRS can investigate and audit *anyone* for *any* reason, even for political reasons. Recently, a federal judge ruled that the IRS can properly select tax protestors for audit.

The power to tax is, indeed, the power to destroy. And absolute power corrupts absolutely.

The government is not the only privacy invader. We live in a bare-all society, where nothing—whether it be the intimate details of a divorce, a financial scandal, a sexual expose, or a family tragedy—seems too sacred to be discussed by the press in front of millions of Americans. Today the casual acquaintance asks, without a hint of impropriety, "What's your

THE HOWS AND WHYS OF ACHIEVING FINANCIAL PRIVACY.



salary?" "How much did you pay for that car?" "How much did your house sell for?" A decade or two ago, such questions were not asked, let alone answered.

You could be hurt financially if someone didn't like your lifestyle, your personality, or your children. Recently an editor of the *St. Louis Post-Dispatch* spent four years and $4,000 vindicating himself from a false credit report based on a neighbor's unfair characterization.

More frequently, citizens are bombarded with unwanted mail solicitations and irritation phone calls by boiler-room salesmen. Thus, privacy and the right to be left alone have gained increasing interest. A recent Louis Harris poll showed that, next to inflation, privacy is the single most important concern of Americans.

Litigation is another threat to your privacy. Innumerable battles have been waged in the courtrooms of the world over divorce, wills, and other money matters. Physicians have been besieged with expensive malpractice lawsuits. The propensity to sue at the drop of a hat seems to be increasing dramatically, and the target is the fellow with the "deep pocket."

Finally, there's a growing threat of robbery. Crime is increasing rapidly in the United States, and the rewards are high in expensive residential communities. If you display your wealth—in the cars you drive, the home you live in, and social activities — you're a vulnerable target.

The moral: you must act now to keep your money from being taxed, sued, or robbed!

The key ingredient in preserving your financial freedom can never be overemphasized: *maintain a low profile.* Years ago people decried the feeling that they were being treated like numbers instead of individuals. But that feeling is changing. For privacy's sake, it might be better to have a low profile, to become an anonymous face in a crowd of millions so as to keep from being selected, honored, or singled out as different, radical, maverick, or dissident, to keep from being harassed or placed under suspicion.

Too many schemes used by privacy seekers ignore this advice about keeping a low profile. Whenever you're considering a technique to keep your affairs secret, ask yourself: Will this arouse the suspicions of friends, business associates, or the government? Take the red checks some people use to keep the bank from microfilming their transactions. Granted, the government won't be able to snoop through your bank records, but nonreproducing checks are bound to raise eyebrows and may even bring on an investigation. "What does this person have to hide, anyway?"

Maintaining a low profile will help you keep from being audited by the IRS. The story of two business partners is a case in point. Both were millionaires. One spent his money lavishly on a spectacular home, expensive automobiles, a second home in Florida, and exotic tax shelters. Not surprisingly, he was audited every year. The other millionaire played it low-key. He remained living in his ordinary middle-class neighborhood, drove a Chevy, and put his investment funds into traditional tax shelters. So far, he has yet to be audited.

In *Mark Skousen's Complete Guide to Financial Privacy* (Alexandria House Books), I offer concrete advice on how to hide your money in every legal way possible—from snooping government agents, jealous friends and relatives, greedy litigants, and professional thieves. I also offer 24 steps you can take immediately to reduce your profile and obtain financial privacy and freedom. Here are some highlights:

Discontinue using your bank account for "sensitive" purchases, which might include the acquisition of gold and silver, diamonds, food for storage, firearms, and foreign bank accounts. Make discreet purchases with cash, money orders, cashier's checks, and in other confidential ways.

Store money and valuables in a variety of safe places, including safe deposit boxes, foreign bank accounts, and at home.

Stress investments of the "bearer" nonreportable type, such as gold, silver, coins, diamonds, municipal bonds, nondividend-bearing securities, bearer Treasury notes, and stamps. Emphasize liquidity, safety, and capital preservation.

Correspond by mail through a post office box, and avoid having your name placed on mailing lists. (You can get off most mailing lists by writing to the Direct Mail Marketing Association, 6 East 43rd St., New York, NY 10017.)

By establishing registered company names, corporations, and trusts, it's possible to avoid unfavorable publicity about business or investment transactions. This is frequently accomplished by celebrities seeking to avoid gossip.

Most importantly, avoid fraud. Refuse to deal with any investment or business firm that will not reveal to you its office address or salient financial information. Insist on references. Privacy seekers are especially vulnerable to fraudulent schemes, particularly if the fictitious company operates out of a foreign tax haven.

Finally, keep a low profile in your social activities. Try to avoid displaying your wealth. Keep your financial affairs a secret.

These are just a few things you can do to become, once again, a free, private individual. ◧

Mark Skousen, a frequent speaker at financial conferences, is the editor of Personal Finance, *a financial advisory letter. He has a Ph.D. in economics from George Washington University and is the author of* Mark Skousen's Complete Guide to Financial Privacy *and* The Insider's Banking and Credit Almanac.

WHAT STOPS INFLATION?

Not WIN buttons and not wage/price controls. But history does show ways to do it.

by Donald L. Kemmerer

IT WOULD BE a serious misconception for the American public to think that the inflation of the 1970s is unique to this decade or this nation. And it would be a sad mistake if successive administrations' misdirected efforts to beat down inflation were thus excused as well-meant attempts to solve what no one else anywhere else has had to solve.

The truth is that inflation has plagued *many* areas of the world at *many* times in history. Nearly everyone is familiar with the image of the German wheelbarrows-full-of-currency experience. Yet this is not the only instance of inflation of such drastic magnitude. Nor is it the only kind history has seen. Inflation hovering in the 8-10 percent range, as well as the feared double-digit and unthinkable triple-digit variety, have afflicted various peoples at various times.

And what came after the wheelbarrows? After all, present-day Germans don't do their shopping with such contraptions in tow. And what comes after 10 percent inflation? or 40 percent? or 350 percent? Must these escalate, to be banished, finally, only when they reach drastic proportions and only by whatever cured the notorious German inflation? Unfortunately, the answers to these questions are even less known than the facts of other peoples' and eras' experience of inflation. But in each case, the beast was tamed by some kind of *monetary change. No* inflation has *ever* been cured with WIN buttons or jawboning or wage and price controls. If we continue to rely on these, *then* we may be doomed to ever-higher levels of or ever-recurring inflation, until we too end up carting around piles of currency. The alternative is to learn from history what is the least-painful way out of our painful situation.

A few years after World War II the rate of price inflation in the United States appeared to be speeding up in a threatening way. There had been considerable currency inflation starting with the 41 percent devaluation of the dollar in 1934, further stimulated by a tripling of gold reserves during the next seven years, and finally owing to a tripling of the money supply during World War II. The dollar depreciated at an average of 5 percent a year between 1939 and 1951—which means it lost nearly half of its buying power over those years.

The commercial banks were loaded in the late 1940s with US government bonds, and the Treasury insisted that their market price be supported by the Federal Reserve. But doing so resulted in further currency inflation and deprived the Fed of its powers of credit control. After all, it could not simultaneously support the bond market *and* limit credit expansion. During the fall of 1950 price inflation reached an average monthly rate of nearly one percent. Something had to be done. In March 1951 the Treasury and the Federal Reserve reached an "accord" for which soon-to-be chairman of the Federal Reserve, William McChesney Martin, was in large part responsible. Bond supports were dropped and the currency inflation ended. The dollar's rate of depreciation slowed to one and two percent a year and did not speed up again until about 15 years later. There were, however, some disturbing omens starting around 1958.

At the time, all of this strongly reinforced my thinking that the United States should return to its former gold-coin standard. Nor was this an unreasonable hope. The Economists' National Committee on Monetary Policy—whose president then was Prof. James Washington Bell of Northwestern University and whose executive vice-president was Prof. Walter E. Spahr of New York University—enlisted the support of Sen. H. Styles Bridges of New Hampshire to present a bill in the Senate to put the United States back on the gold-coin standard. The committee also had the Opinion Research Corporation poll the public on its attitude toward a return to the gold standard. The survey showed that more Americans in 1954 favored the idea than opposed it.

It seemed quite likely that the Senate would pass Senator Bridges's bill, although no one believed that such a bill could get through the House. Still, passing the Senate would be progress: many bills take several sessions before becoming law. So a group of us journeyed to Washington to testify before the Senate Banking and Currency Committee. I gathered historical materials that clearly showed gold-based currencies, in a sample of 30 major nations, to be more reliable than paper-based ones.

Also, I began to gather material for a book on the resumption of specie payments, a subject that today sounds archaic. It usually means a nation's return to a gold-coin standard, but it can mean a return to a silver-coin standard or to a bimetallic standard. An obvious example is the American "resumption" or return to gold convertibility on January 2, 1879, following the Greenback inflation of the Civil War. But I soon unearthed dozens of other cases.

Since 1967 the dollar has depreciated at an annual rate averaging 6 percent, compared to 5 percent for 1939-51. Sooner or later the American public is going to grow weary of the paper-money, inflation-ridden life that it has been leading—which I liken to "pub crawling"—and decide that it wants a reliable currency again, that it wants to "get back on the wagon." Maybe this will happen in a few years time, as it did in Britain after the Napoleonic wars, or in France in 1926-28. Or to be pessimistic, maybe we'll lead an Andy Capp existence for several generations as we did during most of the 18th century, until we finally adopted the Constitution, which said, "No State shall...make anything but gold and silver coin a tender in payment of debts." And suppose we do choose to stabilize our currency again so as to have once more a dollar whose continuing value we can trust. Where do we turn for instruction? We should, of course, look at how other nations have done it in the past.

Most nations can halt the inflation that is afflicting them if they are willing to pay the price. The exceptions, like the Black Death inflation of the 14th century or the gold and silver inflation of the 17th century, are rare. Any nation that does not stop an inflation simply because it is politically painful to do so is essentially declaring bankruptcy. There is an old saying, "Nations do not go bankrupt and pay off, say

50 cents on the dollar; instead, they inflate the money supply and pay off in a 50-cent dollar." Historically, inflations have been dealt with in various ways, often depending on the type of inflation involved.

First, there is the mega-inflation, or complete disaster type, that winds up with a stabilization at a thousand to one, or a million to one, or even a trillion to one. The rate on the Continental dollar reached a thousand to one near the end of the American Revolution, and we still didn't achieve stabilization. It was the worst example of inflation in recorded history up to that time. Stabilization rates for the French assignats were also very high in the 1790s. In Brazil the present cruzeiro is a many-thousand multiple of the real of a century ago, and there is still no end to it. In Russia about 1924 the ruble (once worth 51 cents) was temporarily stabilized at 50 billion to 1. At about the same time, Germany stabilized its mark at the all-time record of a trillion to 1.

None of these nations ever declared itself bankrupt. But one may well ask at what point a government closes down the old "store" of value and starts over with a new one.

Second, there is the multiple or three- to four-digit type of inflation. Like the mega-inflation just mentioned, it too can do enormous economic damage. In this category would fall some of the inflations in colonial times, such as those in Massachusetts (11 to 1), or Rhode Island (26 to 1), or New Hampshire (34 to 1), or the one terminating in Guatemala in 1926 (60 to 1), or in France, 1914-28 (8 to 1), or again in France in World War II and after (40 to 1), or in Germany after World War II (at least 10 to 1).

These price inflations are not a great deal less damaging than the mega-inflations. What is the difference between being paid off by a bankrupt at the rate of 20 cents, or 10 cents, or 2 cents on the dollar and receiving virtually nothing? In every instance the person who trusted the money unit has lost most of his savings. Nonetheless, in Type II inflations there is a little hope left and thus some motivation to put out the inflation fire and save the remnants of the economic edifice before flames completely sweep it away, as in Type I.

Third, there is the more creeping variety of inflation. We had this kind during our Civil War, in the two World Wars, and since 1965, especially since 1971. It is the kind that Britain had in the Napoleonic period, in World War I, and likewise twice since then. But don't think for a moment that those are mild and relatively harmless. All of them, too, did terrific economic damage, causing losses to savers of half to four-fifths of their capital. But at least these inflations leave some hope of preserving the reputation of the money unit as well as some of its buying power—*provided* the people and their government take sufficiently prompt and drastic action. Often the people won't, or at least not enough of them sense the need to do so.

Their hesitation or seeming indifference sometimes rests on faulty economic thinking emanating from presumed authorities who state that the money unit has only a temporary ailment attributable to a bad trade balance or to excessive demand. These excuses were heard in Germany after World War I and are now being reiterated in this country. Or the inflation may be attributed to the refusal of the defeated enemy to pay reparations, as many believed in France in the 1920s. Or blame may be placed on the scarcity of coin and the "high price of gold," as in Britain in the early 1800s.

When people find it painful to face facts, they are highly ingenious rationalizers. But very very few inflations throughout history have not been caused primarily by an oversupply of money, usually paper money, and we will never come up with a remedy unless we focus our attention on that main cause of the affliction and not seek to blame or cure other pains, many of which are only side-effects of the principal cause.

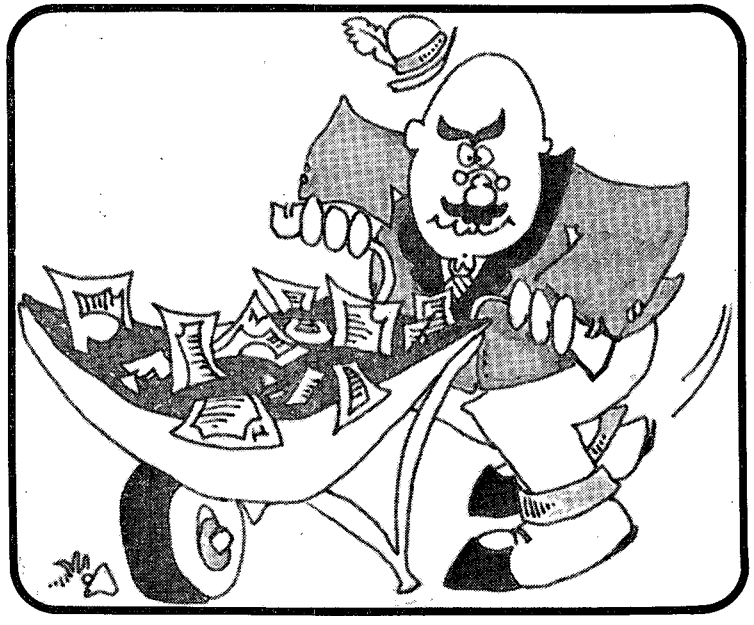


Illustration by Liza Quackenbush

So what are the alternatives before us? I am assuming (1) that it is inflation we are dealing with and must continue to deal with, that no deflation is going to spirit us from the scaffold at the last minute. I am assuming (2) that the presence of Eurodollars is not an insurmountable obstacle that only world cooperation can solve and no nation alone can overcome. I am assuming (3) that finally enough of us want badly enough to stop the currency inflation to keep the pressure on to stop it.

Let's look first at the concluding chapters of the catastrophic Type I inflations. We find the governments following one of three main courses of action. I shall touch on them in reverse order of my preference for them, saving the best for last.

The United States in the 1780s, France in the 1790s, Russia in the 1920s, and Brazil repeatedly created a new money unit with, say, a 10 to 1 or 100 to 1 ratio of the old to the new. This temporarily reassured the people and gave the government a brief respite before it started out on a new round of currency inflation. That is not a solution.

A few years ago Brazil came up with a new device so the government might continue to enjoy the profits and "freedom" of inflation and yet allow its citizens some measure of self-protection. The device is indexing, and it has attracted widespread attention in this country from those who think that stopping inflation is a vain hope. This, too, is a palliative, not a cure.

Finally, let's look at the better solutions employed. France eventually turned to bimetallism under Napoleon and so essentially did the United States under its Constitution adopted in 1789. Both were delayed reactions. Germany in 1923-24 first tried a way out that was reminiscent of John Law's economics—land was used as the collateral for the Rentenmark. But Germany quickly shifted to a mixed gold-bullion/gold-exchange standard. And Austria and Poland made a more direct transition to the same mixed gold standard. The late 1920s were the happiest and most prosperous years in central Europe between the wars.

Next let's examine the wind-up stages of the Type II inflations in which the money unit lost 80 to 98 percent of its value. Once again I'll give them in ascending order of desirability, although this time

the choices are not as clear-cut as in Type I.

France under President Charles DeGaulle in 1958 knocked two zeros off the old franc to create a new franc whose value relative to the dollar became a once-familiar 5 to 1. At the same time he had the Parliament repeal a number of price controls and other regulations that stimulated price inflation instead of restraining it. But France did not make its new franc convertible into gold, and within a few years it was once again depreciating at a distressing rate.

Germany in 1948 literally "bit the bullet," virtually cancelling 90 percent of all money and bank accounts and at the same time repealing numerous price controls and other restraints on economic growth. But Germany did not—in fact, was in no position to—make the new mark gold-convertible. Nonetheless, the action unleashed a "miracle" economic recovery that has been one of the marvels of the 20th century. One should not, however, forget that during the first 20 of the last 30 years, the rate of price inflation in Germany was about the same as in the United States. Only in the last decade has ours speeded up. The German cancellation method required great courage and secrecy on the government's part and great self-discipline on the part of the German public.

Nobel Prize-winning economist Friedrich von Hayek has in the last few years attracted a good deal of attention by suggesting that governments should surrender their monopoly right to provide the nations' money. Actually, his suggestion is not all that new. With or without governmental approval, many countries have resorted to this on numerous occasions. When governments are irresponsible in maintaining the value of their money unit, some of the people, sooner or later, find ways to solve the problem.

For Europeans, the prime example is the use of cigarette money at the close of and after World War II. For historically minded Americans, it is the use of gold coins instead of fiat paper money (Greenbacks) during the Civil War, particularly in California. During an inflationary period in Poland in the 1920s when the future value of the zloty was in doubt, there was a bank in Warsaw that did all its business in American dollars. Likewise in Mexico in 1917, after a period of one unsettled government after another accompanied by successive issuings of fiat paper money pesos, the people, quite suddenly, within *a few days'* time, turned to using gold and silver coins. Shake the confidence of a people in their money, and this sort of thing can happen rapidly.

The Guatemalan peso lost most of its value in the first 20 years of this century because of chronic currency inflation. More and more the businessmen of Guatemala turned to using American dollars, until finally this second currency, in essence, officially replaced the discredited peso. The 1924 monetary reform proposal to create a gold-convertible unit, the Quetzal, equal to a US dollar, was put into operation in 1926. Old pesos were made convertible into Quetzals at 60 to 1. In short, the more trusted currency now became the official one.

Finally, a few Type II inflation nations readopted a gold unit, whether old or new. France in 1928 adopted a gold-bullion standard with a franc about one-fifth the value of the prewar franc in terms of 1928 dollars or sterling but one-eighth the value in terms of its 1914 purchasing power. In the latter 1920s Italy, Belgium, Rumania and a few other recent belligerents returned to some form of the gold standard. Occasionally it was the gold-bullion variety, but more frequently it was the fatally flawed version of the gold-exchange standard that came out of the 1922 Genoa Monetary Conference.

ALLEVIATING AILMENT

The Type III inflation nations, the ones suffering a 5 to 1 inflation or less, have chosen one or the other of two routes—drifting, or stabilizing with gold. The United States and Great Britain have been drifting for close to 40 years. Our inflation has picked up speed since we cut the last tenuous tie with gold in 1971. The 1978 dollar is worth only about 20 cents in terms of the 1933 one. At the last decade's rate of inflation—six percent a year on the average—the dollar loses half its remaining value every 12 years. Rates like this tend to speed up rather than slow down. If a nation drifts long enough, it lands in the Type II category, and beyond that lies the Type I abyss. Britain and the United States are already close to being in my Type II inflation category.

The other solution, virtually the only one used in the past, is a return to gold or silver convertibility. That is a quick way of restoring public confidence. At the close of the Napoleonic Wars and after World War I, Britain returned to the gold standard. So also did the United States after the Civil War and after World War I. A nation must, of course, be prepared to submit to the discipline that the gold standard imposes.

"Ah," I hear, "but times have changed." Technology *has* become increasingly complex, but have *people* changed in any basic respect? Their fears and desires remain much the same. Yet the public does at times develop some strong and lasting prejudices. The South Sea Bubble of 1720 in Britain, for example, left such a lasting bad impression that it delayed acceptance of the corporation as a form of business for about a century. Likewise, American political differences over the First and then the Second Banks of the United States made the thought of a central bank anathema for most of a century. When we did set up a central bank in 1913-14, we had to break it into 12 pieces and give it another name, the Federal Reserve System. The 1929-33 panic and depression has colored our economic thinking now for nearly 50 years and made most American and British economists more fearful of rare deflation than of the much commoner and more dangerous inflation. And finally, the followers of Lord Keynes have so poisoned the minds of a generation of students, many of them today's top policymakers of the nation, against a gold-convertible currency that there is little likelihood of getting it reconsidered for some time.

How then could we end the present price inflation and put a "capper" on it to keep it from starting up again? A proposal to return to a gold-convertible currency would arouse widespread opposition. Indexing is a clumsy Rube Goldberg device that does not get to the root of the problem. Knocking off zeros and creating new units solves nothing and is a transparent cover-up for drifting.

The most promising way out is the second-currency one. And it *could* lead us eventually to the many-times proven best money standard, the gold standard. In the last five years Congress has swept three barriers out of the way. In the fall of 1974 it passed a bill restoring the citizens' right to own and deal in gold, starting January 1, 1975. And in October 1977 it repealed its resolution of June 5, 1933, outlawing the gold clause in contracts. And in November 1978 it passed a bill to introduce gold coins of an ounce and a half-ounce in size. These could serve as a dual currency for those whose faith in the fiat paper dollar is waning.

Like the establishment of the Federal Reserve System, the creation of a dual gold currency could be an acceptable way to circumvent a widely held prejudice. Those who prefer fiat paper money could continue to do so and those favoring gold coins, gold-convertible paper, and gold banks could go that way.

But, one way or another, we have to return to a precious-metal-based currency if we are to banish inflation. History shows us there is no other really successful way.

Donald Kemmerer is professor of economics, emeritus, at the University of Illinois and president of the Committee for Monetary Research and Education. This article is adapted from his presentation at a CMRE conference.

Pastor

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may, however, cancel your agreement in writing at any time and close out your account if you are not pleased with the results.

Commodity account management comes primarily in three forms. You can place some risk capital in a pool operator's fund. Several of the major securities firms offer multimillion-dollar commodity funds for minimum investments of $5,000. Another option is to have your speculative capital managed as an individual account by a registered commodity advisor who would be independent of the brokerage firms and therefore would not have a stake in the commissions but only in the profits he could accumulate for you. It should be noted, however, that advisory firms generally have minimum-size accounts from $20,000 to $100,000. The third alternative is to have your account managed by a commodity broker. He definitely has a great interest in the commissions your account will generate.

Commodity futures trading is strictly for those with genuine risk capital and a hardy constitution.

There are several advantages to employing a professional commodity trader to manage your account on a discretionary basis.

- Professional advisors tend to be very disciplined and objective in the way they trade and manage your capital. They are also likely to have the data and computers and the requisite knowledge, experience, and temperament to do the job competently.
- Professional advisors will generally provide better control of risk.
- Commodity advisors tend to stay with trending markets rather than cash in the quick profits. As a result, there is less likelihood of overtrading which tends to eat up your equity with commissions.
- There is usually no conflict of interest with registered commodity advisors because there is no incentive for them to generate commissions. There is, however, a real conflict of interest present when a commodity broker manages your account, because some brokers may be tempted to "churn" accounts to increase the output of commissions.

The only real drawback of professional management is the commodity advisor's "take." Since advisors usually work on a percentage-of-profits basis, investors have to agree to their terms—normally, anywhere from 10 to 30 percent of cumulative realized profits over realized losses. These are usually paid out of your account monthly or quarterly, provided your account has been profitable.

Needless to say, the registered commodity advisor must make money for you if he is to make any for himself. He has, therefore, every incentive to trade your account conservatively and prudently. He *must* control risk and stay with those major trending markets that make the big difference between winning and losing in commodities. Accumulating substantial profits for his managed accounts is the professional advisor's whole raison d'être. If he doesn't, he won't be in business very long.

CHOOSING TIPS

There are hundreds of active registered commodity advisors, according to the Commodity Futures Trading Commission. So how would you select a suitable one for your own speculative capital? There are essentially *four* criteria, in my opinion, for evaluating advisors. In order of priority:

- Look at the respective *lengths of time* they have been in existence. Longevity is an excellent indicator by which to judge performance. Brand-new advisors with new "sophisticated systems" may best be avoided. An established commodity advisor with years of experience and, especially, with greater quantities of capital under management, may be a better choice.
- Look at the *actual track records* of the respective advisors. Do not accept hypothetical trading results or back-traded systems generated by a computer. Ask to see actual historical performance over a number of years. In fact, ask to see the trading results and equity of a few *real* individual accounts. If they can't produce them or refuse to, the best advice is to pass.
- Try to determine the respective *trading strategies* of suitable commodity advisors. What are their approaches to the business of commodity futures trading? Do they diversify into a dozen markets, or do they concentrate more often in certain groups, for example, grains, livestock, metals? Do they show a pattern of realizing relatively small losses and large profits? Do they add to their positions as a major trend evolves?
- Lastly, look at the *fee structures* of the commodity advisors. Many work strictly on the basis of a percentage of profits. Some have a monthly or quarterly management fee on the equity *in addition to* a percentage of profits. Others may exact a front-load fee, as well. As a rule, try to avoid those which charge a management or front-end fee. The better ones may be those who are compensated only by a fair share in the *cumulative* profits.

Given the three alternative ways to play the commodities markets, you, of course, have to determine which is suitable for you. Do you have the psychological makeup to do your own trading and manage your own money with discipline and control? Will you follow a mechanical program faithfully and consistently? Perhaps you would do best with a professional commodity advisor managing your money for you.

Longevity is an excellent indicator of performance for commodity advisors.

Regardless of the alternative you choose, remember that commodity futures trading entails a high degree of risk. Only individuals who can willingly assume the risks should consider such an endeavor. For those who relish speculation and *can* afford to bear the risks, there are intelligent ways to take part in the commodity trading boom that offers extraordinary opportunities to reap fortunes.

If you have sufficient genuine risk capital ($20,000 plus) to invest with a registered commodity advisor, that may be your best alternative. If you have less than $20,000 available for speculation, you may be better advised to diversify into one or two commodity funds. Never forget that a fool and his money are soon parted. If you don't have what it takes to manage commodity trading, shamelessly acknowledge it and opt for professional management. You and your money may live longer.

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Deak

(Continued from p. 32.)

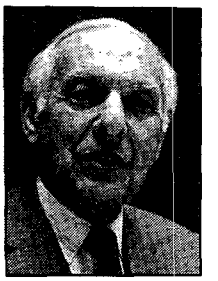
if the United States is exposed for a long period of time to overspending, to expending more calories than it is taking in, eventually it will get into trouble.

The United States is a tremendously rich country. We have the respect of the entire world for our productive capacities, for our inventiveness, for our capacity for hard work, if we want to do it; and people all over the world respect us. They are, though, losing respect for the dollar. Unfortunately, all our activity is measured in or built on dollars, and if our monetary system collapses we will have major social and economic upheavals, as we have seen in other countries.

In my long life I have gone through such things in several European countries. When it happens in a country like Chile where the money collapsed, or in Argentina, or in Indonesia, it affects that particular country. But when it happens in the United States it will affect the whole world, and that is why the entire world is concerned about the dollar. Furthermore, the dollar is the reserve currency of the world—not so much because people have respect for the dollar but because nothing else could take its place. And the central banks of foreign countries are very much concerned because *their* major reserves are in dollars, in addition to some gold. And with the dollar losing value, that reserve is evaporating.

Don't misunderstand me. I am not proposing that we are a weak country. We are a very strong country, but with a weak currency. And the currency is no good if we know that it is not a store of value, if we know it will buy less next year than it buys now. Because then we want to get rid of it; we want to put it in something else. And that is not good for the economy. But it is human nature to try to hold on to something that has a stable value and try to get rid of something that does not have a stable value. And the dollar today doesn't have a stable value.

But my final and major message is that in an inflationary world the best protection is to keep working and stay in business. Don't try to live on past earnings; work! As the inflation increases, your earnings will increase as long as you provide services and goods that are needed by the public. Try to swim with the current. Try not to stop working; try not to stop earning money; be active. And good luck!



Nicholas Deak is president and founder of the Deak-Perera Group, a foreign currency exchange firm with offices around the world. Mr. Deak is a frequent speaker at investment conferences.

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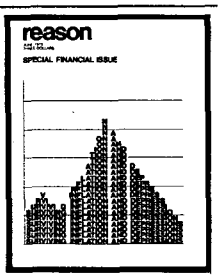

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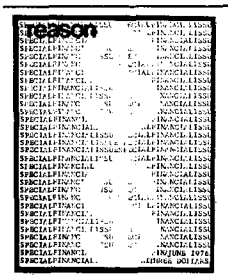

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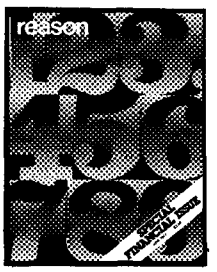

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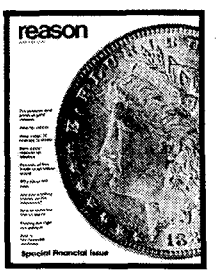

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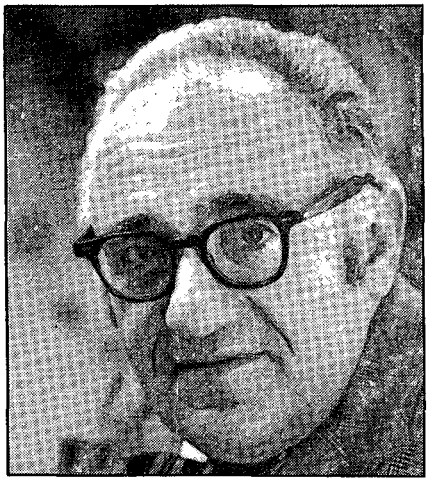
The Death of a State

viewpoint



Murray N. Rothbard

Libertarians are, of course, determined opponents of the Leviathan State. They are also "idealists," believing in the power of ideas to move mountains, to make history, to transform society. Even to overthrow an entrenched coercive despotism. And yet, libertarians have displayed curiously little interest in the *process* by which such social transformations can and do take place. *How* do ideas force a change in social institutions, even those that seem to be deeply entrenched?

In the first place, it is clear that ideas do not float around or influence historical events by themselves, in a vacuum, as it were; they must be adopted and carried forward by *people*. In short, new or radical ideas must be embodied in a self-conscious *movement* of people who have adopted them. Second, it is impossible for everyone to adopt a new idea at the same time; it is adopted by one or a few people, and then, if conditions are right, it will spread to other groups or persons in the society. One of the major functions of a movement, then, is to carry forward the new idea and to convert as many others as possible.

But everything is not a rose garden. Apart from the intellectual vested interests that any new idea will confront, an idea which opposes an existing power elite will inevitably come into some sort of clash with that power.

Most people, including many libertarians in their pessimistic moments, are despairing of any possible way to overthrow a dictatorial and despotic State. How can the mere power of ideas win out over a totalitarian tyranny that has all the guns?

Again, the flaw in this despair is thinking of ideas as floating abstractions, instead of as animators of a growing and determined movement. But how can such a movement win out?

The recent revolution in Iran illustrates in classic fashion how such a victory can be attained. The regime of Shah Pahlevi seemed to be irresistible. It had been in power for decades. The shah's father had proclaimed himself monarch and had grabbed about half the land area of the country for his own personal use and ownership. From taxes and the proceeds of such ownership, Pahlevi built up a formidable military machine, fueled by enormous military, political, and psychological aid from the United States. The shah's engine of internal terror was equally impressive; anyone who looked like a dissident or opponent was subject to torture, a torture so widespread and systematic that Amnesty International deemed the shah's regime to have the worst human-rights record of any regime in the world. Until the very end, the United States stood ready to back the shah to the hilt. Until the very end, also, the CIA insisted on pronouncing the shah's rule among the most stable and trouble-free in the world.

So what happened? Opposition to the shah had been bubbling for years, but it had no institutional structure to represent it, and it had no guiding idea of any positive alternative. "You can't beat something with nothing" is a cogent motto, and it rules in political affairs. This doesn't mean that an anti-shah opposition movement had to spell out its alternative in detail; to the contrary, any such specification would have been likely to alienate large parts of the opposition coalition. But some guiding theme, some vision, some *idea*, must be there to energize the public and to unify the various strands of opposition. In Nicaragua, a popular movement seemingly united last year to overthrow the hated Somoza dictatorship fell apart and is now further away from triumph than ever. What the Nicaraguan coalition lacked was any kind of positive idea or unified leadership; hence, the propensity for the coalition to fall apart even before victory was achieved.

Whether libertarians like the fact or not, religion has always proved to be one of the most animating and energizing ideas that mankind can adopt. In the case of Iran, it was religion—or rather, religion as embodied in the institutional structure of the Ayatollah Khomeini and his "Islamic Republican" movement—that provided the vision and the guiding idea that managed to topple the shah's tyranny in an incredibly brief period of time. The Khomeini movement started with no guns at all; it began only with a figure deeply venerated by the Muslim masses of Iran, a figure who had been exiled for many years for his opposition to the shah. Institutionally, the movement had the other ayatollahs and a host of the younger mullahs—in short, they had the Muslim religious structures ready to roll and to activate their flock. The Muslims were deeply aggrieved by the shah's assaults on their religious ways. Once the masses were convinced that it was Islam versus the shah, and that Khomeini was the embodiment of Islamic teachings, the shah, for all his money and might, didn't stand a chance.

The Iranian masses did it, until the very end, without guns. They did it with a repeated series of strikes and demonstrations, each reinforcing the other with cumulative effect. Crackdowns and shootings by the army only succeeded in inflaming the masses and intensifying the revolutionary movement. Finally, when guns appeared at the end, they were only minor auxiliaries to the weight of nearly the entire populace. At the last, it was the masses versus the army, with its virtual monopoly of firepower.

But what happens in all successful revolutions is that finally the army, too, becomes "subverted"—it is either swept up in the revolutionary ideology, or the soldiers refuse to fire upon their own families or upon people very like themselves. And so it was in Iran. While the higher officers remained faithful to their royal patron to the end, the troops and the lower officers began to break off. Finally, the death of the shah's surrogate regime, of Prime Minister Bakhtiar, was spelled the night before the end, when the army announced publicly that it would take no further part in the struggle, that it would let the people decide the nature of the regime. That was it, and the very next day the revolution triumphed. Another mighty and seemingly invincible State had been slain.

(Continued on p. 58.)

spotlight

Alternative Education Fighter

In the spring of 1970, a month after Kent State, Ed Nagel chucked four years' worth of tenure as a New York public high school teacher. He would no longer abide teaching kids about a way of life he was so unsure about.

"At one point, I suddenly realized that I couldn't do it anymore—teach in a public school," Nagel, then 28, recalls. "My daughter was kindergarten age, and I couldn't let her proceed through a System I had so little respect for."

His search for the right alternative led the Nagel family to visit (often for days at a time) a catalogue list of more than 100 counterculture and community schools. They finally settled in Santa Fe, at a school operated cooperatively by parents of 13 children. The school's conceptual base was radical—that a child will learn best what he personally is most interested in. A standardized curriculum was unthinkable among the parent-operators, who switch duties and responsibilities on a regular basis. Some sessions, Nagel performs the role of "principal"; others, the function of janitor. For once in his life, Ed Nagel was free of the System.

Except for one thing. The System wouldn't let go.

Trying his best to drop out, Nagel learned that you can flee but not escape from a society intent on making sure everyone does things pretty much the same way. Luckily, Nagel turned and fought—and won. And won again. Organizing a network of legal talent from across the country, Nagel has repeatedly stood firm against harassment and denial of rights from local, state, and federal agencies, including the Internal Revenue Service. The organization he founded, the National Association for the Legal Support of Alternative Schools (NALSAS), has helped dozens of parents and nonpublic schools cope with—or strike down—government regulations and compulsory attendance laws.

The government made its first mistake in January 1971, when the state-level Department of Education denied accreditation to the Santa Fe Community School's secondary program. Parents were told they would be prosecuted for failing to have their children educated at an approved school. The school's shortcoming: it didn't provide teachers certified in the 30 courses required in public schools. "Since we only had two teachers and thirteen children in the entire school, that seemed pretty silly," Nagel points out.

Just the same, the state was serious, even though a number of New Mexico's rural public high schools failed to meet the 30-course standard. Nagel sought aid from several attorneys and foundations (including the Rockefeller Brothers Family Fund and the New Mexico ACLU). It paid off a year later when the State Supreme Court ruled that New Mexico's constitution delegates no authority to distinguish what type of school satisfies compulsory education requirements. The following year, publicity surrounding the case, and the lobbying efforts of a nonpublic school task force, persuaded the legislature to remove all state authority over nonpublic schools, including the requirement that teachers be certified.

Ed Nagel

But the state wouldn't rest. Because its enrollment included kindergarten-aged children, the Santa Fe Community School was under the jurisdiction of the State Health and Social Services Department. And because the school was known as a troublemaker, it experienced blatant harassment. During one six-month period, 20 government inspections were carried out.

"They came out and said they found 25 code violations that we'd have to correct. We fixed things, and the inspectors suddenly discovered 23 totally new items that didn't conform. They couldn't be satisfied," Nagel reports.

Examples of creative enforcement:

- When the Santa Fe school converted a one-story, ranch-style structure into a school building, the authorities cited the fire code's insistence on corridors six feet wide. "We offered to let the inspector hold a fire drill. He could lock any door, block any exit, anything he wanted, and we'd have the building cleared inside a minute," tells Nagel. "The inspector said that didn't matter, because we didn't meet code specifications. Then we went over to the state capitol and found dead-end corridors narrower than six feet, right there in the capitol where the stupid law was made. Finally we just knocked down a wall so there was no longer a corridor to worry about."
- One inspector cited the school because the children's faces and hands were dirty. Nagel asked him if the complaint was serious enough to close down the school; the reply was no. Later he brought up the same question with the inspector's supervisor. "The man looked at me with a scowl and said, 'Wash 'em.' He was dead serious."

The frivolous harassment halted suddenly when Nagel and fellow parents prepared a lengthy letter detailing the government's actions. The letter was mailed "to anyone we thought might respond, anywhere in the country." Sen. Joseph Montoya replied by calling in the responsible bureaucrats for a discussion, "and suddenly it turned out we had resolved all our differences. The agencies just stopped annoying us, even though we were doing most things the same as always."

The national pattern of pestering alternative schools was clearly established, however. Operators of small schools all over the country contacted the Santa Fe group to compare notes on legal tactics to avoid bothersome public officials. A regular exchange of correspondence developed.

In May 1973, while attending an Ohio conference of alternative educators, Nagel heard a speaker declare the need for a national clearinghouse of legal strategies for nonpublic schools. The idea "was to hold a later conference to develop a funding proposal and get the thing started once it was financed," Nagel says. "But my approach has always been that if you want to get something done, you do it. So I told them I'd start NALSAS on my own, run it until the conference raised some funds, and then turn it over to them. The funding never came through."

Nagel did come through, though, and just in time. While more traditional parochial schools and private academies are experiencing moderate growth rates, the interest in starting tiny—sometimes one-family—alternative schools is expanding (*Continued on p. 59.*)

movies

• The China Syndrome • Moment by Moment

• **THE CHINA SYNDROME** is in a minor way a well-done and exciting film; but it is without doubt one of the most gruesomely *evil* films ever made.

In a late Pasolini film (which I did not see, and whose name I do not remember) there is a scene, a kind of sardonic imitation of the Last Supper, in which the participants are served excrement. Apparently this was too much for even the liberal press; some reviewers said that the film is so evil that it should be banned. Yet such a scene would probably evoke no more than a temporary (though strong) revulsion in most viewers; I can't imagine it having a morally pernicious influence on anyone. What *is* evil, however, is to imbue people with *falsehoods* masquerading as truth, so that the reasoning guiding their action is based on lies. This is precisely what *The China Syndrome* does, and consequently it will probably produce more harm than a thousand degenerate Pasolini films put together. There are two main reasons.

The implausiblity of some of the characters and situations is one reason, but the lesser one, because many viewers can discern it for themselves. That the owners of a nuclear plant would want, and consistently try, to suppress facts about potentially deadly conditions in their own plant is highly implausible. Who would be so indifferent to something that could cause one's own death?

There are other obvious implausibilities. That the plant superintendent (Jack Lemmon), once he knew of a deliberate falsification, would go to the man who falsely signed the document, rather than to the company boss, would be inanely stupid and the consequences predictable. And that hired goon squads would kill the man who tried to point out the dangerous condition (in order to keep the secret from getting out) is also highly improbable, with the press and TV there on the scene. Fortunately, some members of the audience seem to sense some of these improbabilities.

But the second reason is more dangerous, because most of the audience won't have read enough to know that the "scientific facts" on which the film is premised aren't facts but fictions and fantasies. There are so many of these that it would take pages to delineate them all, but the curious reader can find the *facts* in Petr Beckmann's *Health Hazards of Not Going Nuclear* (Boulder: Golem Press, 1976). For example: (1) While no source of energy is 100 percent safe, in view of multiple safeguards, nuclear energy is far safer than oil, gas, coal, or other present energy sources; but the film shows nuclear energy as the *least* safe—an outright lie. (2) Under no circumstances could a nuclear plant, even in an earthquake, generate an explosion like an atomic bomb: that would require uranium enriched to more than 90 percent, whereas even in a runaway nuclear reactor the percentage is below 3 percent (Beckmann, p. 42); so such an explosion isn't just vastly *improbable*; it's physically *impossible*. (3) Nations in western Europe and elsewhere have had nuclear power generators functioning smoothly for years, and never in all those times and places has there been a single fatal accident (more than can be said for any other form of energy); in addition, it is cheap and pollution-free. The film gives exactly the opposite impression to all this. (4) Even the supposedly intractable problem of nuclear wastes has been nicely taken care of (Beckmann, pp. 101-4) in other countries; in the United States such solutions have been stymied by Carter's executive orders.

The film is anti-industry and anti-technology, but not anti-government: the government enters the film as the savior of the situation in response to the "greed" of private industry. As such, it aids and abets totalitarianism and hammers another nail in the coffin of freedom. There is hardly a surer way to turn the United States into a totalitarian State than by drying up its sources of energy. There are abundant sources of fossil energy, but the government is regulating these industries to death. That leaves only nuclear. But once people have had the hell scared out of them by threats of disasters in nuclear plants, that leaves—nothing: no energy, no more production, no more wealth; only massive starvation and passive ants in an inert anthill controlled by the regulators enforcing universal poverty from above.

This film richly deserves to be called false propaganda, evil, obscene, and many another such epithets. For if the propaganda message of this film were to succeed, the result would be infinitely worse than that of any nudity, sex, or violence that could possibly be displayed on the screen, even to children.

Should this film, then, be banned, as liberals who monotonously chant praise of it have recommended doing with Pasolini's film? No, it should be *replied to* in the form of at least one powerfully made film that simply tells the truth. Unfortunately, there is probably no movie producer waiting in the wings to do such a film. If there were, its beneficial impact could be enormous beyond the power of words to describe.

—John Hospers

• **MOMENT BY MOMENT** the film drags on interminably toward its end. The script is unbelievably stupid; the two principals (Lily Tomlin and John Travolta) are badly miscast in their roles; and the audience before long takes to cheering and hissing, not in response to what is happening on the screen (that soon becomes too dull to merit a response), but in recognition of settings, mostly Beverly Hills and Malibu, where the film was shot.

Yet the idea behind it all was far from stupid. In hundreds of films a younger woman falls in love with an older man; in this film these roles are reversed, and the idea has many possibilities that deserve to be explored. A good film on this theme could make the viewer feel with devastating power what it would be like to be in (for example) the role of the woman in this film, so that when the depiction of some external event (in itself trivial) is repeated —for example, she hoses off her feet after coming in from the beach—the contrast between this simple act occurring *before* her love affair and again *after* it would be gripping in its emotional quality, the second incident triggering a surge of powerful feeling through the recollection of all that had gone on between.

There are films that have achieved such effects. The British film *Brief Encounter* treated the love affair between two people (each married to someone else) with just such poignancy, including a careful selection and accumulation of details to evoke a response of almost unbearable intensity. Perhaps the greatest film of all in this genre is *Le Diable du Corps* (*Devil in the Flesh*), dealing with the unexpected but bewilderingly powerful development of adolescent love. In both this film and *Moment by Moment* there is a scene in which she is in front of the fireplace as he comes in out of the rain—but the handling is worlds apart in the two films. If the writer and the director of *Moment by Moment* had seen either of these two other films, they would, I hope, have had the aesthetic decency to prevent their film from being shown in any public place.

—J. H.

books

The Optimist's Guide to Making Money in the 1980's

By Jerome Tuccille.
New York: William Morrow. 1978. 203 pp. $7.95.

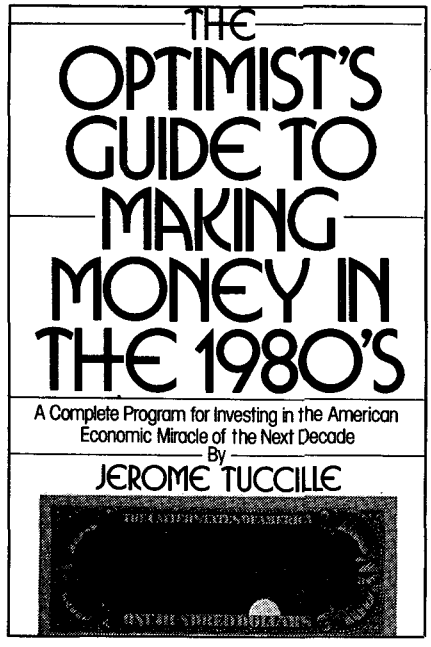
Reviewed by John Pugsley

It is rapidly becoming common knowledge that, to be rational, any investment plan must be based on a prediction of the future course of the economy. The value of each investment asset will depend on whether we experience mild inflation, rapid inflation, depression, or stability. The economic turmoil of the past has produced a spate of investment books that base their investment recommendations on even greater turbulence ahead; specifically, they say we're faced with runaway inflation, and depression.

Jerome Tuccille's new book, *The Optimist's Guide to Making Money in the 1980's*, is a frontal attack on the hard-money school, or as he calls them, the doomsdayers. Tuccille's title is a giveaway to his view of the future; he believes that by 1982 the country's economy will undergo a profound shift for the better:

> Inflation will remain with us, but probably within limits we are willing to accept—up to 9 or 10 percent and as low as 4 or 5 percent a good part of the time. The dollar should regain its strength as one of the world's most stable currencies, backed by a reasonably healthy gold reserve and a robust economy. Taxes will be a continuing source of irritation, and unemployment will be a major concern only to those who truly want to work and cannot find a rewarding job.

With the future holding out neither hyperinflation nor depression, Tuccille advises his readers to ignore the advice of the hard-money promoters. The new investment opportunities are going to lie in much more traditional markets. Around 1982, he says, "the American stock market will enter one of the strongest and best-sustained bull cycles in history." In conjunction, gold will remain stable, he predicts, and bonds will once again offer stability, while the venerated Swiss franc will fall from favor.



Tuccille recommends the US stock market as the primary vehicle for anyone's portfolio. He offers several strategies for profiting from the market, depending on the individual's desire for speculation or need for safety. They include techniques for increasing stock yields through writing or buying puts, adding to or reducing holdings with market swings, and simply buying and holding. According to Tuccille, his growth strategies should conservatively provide 15 to 25 percent annual returns.

For those seeking income and safety, Tuccille recommends several alternatives that include certain utilities stocks, preferred stocks, short-term discounted bonds, unit investment trusts, and even tax-deferred annuities. For those with tax problems he briefly discusses Keogh and IRA, municipal bonds and bond trusts, and trusts for one's children.

In an apparent attempt to satisfy those hard-money buffs who aren't convinced by his arguments for good times ahead, Tucille devotes almost a third of the book to a series of mini-chapters, each of which touches briefly on individual investments including most of the hard-money assets such as gold, silver, and Swiss francs. He also speeds through antiques, ceramics, old autos, rugs, commodities options, jewelry, diamonds, platinum, uranium, insurance, real estate, stamps, and interest-rate futures. Unfortunately, in a 200-page book, space doesn't permit adequate development of so many involved topics. Both the knowledgeable investor and the novice will probably find these sections far too general to be of much use.

Before following the recommendations offered in *The Optimist's Guide to Making Money in the 1980's*, the reader must face two questions: Is Tuccille's analysis of the economic future correct? And, if so, are his strategies for taking advantage of the trend correct?

The key factor in our economic future is the rate of inflation. Tuccille believes it will moderate and cites a variety of factors, including growing support for monetarist economic theory, the liberals' move toward deregulation, high US gold reserves, increasing bank liquidity, and the probability that much of the money that has been piling up in US savings will be funneled back into the economy.

The question Tuccille fails to address concerns the federal deficits. He expounds vigorously on politicians' profligacy and government waste and points out that the federal debt, including government pension promises, now amounts to some $8 trillion, about $200,000 per American. But he fails to explain how that debt can be paid without increasing the deficits and thus dramatically accelerating the growth of the money supply. Economists' growing belief in monetarist theory does point to curtailing the growth of money, and thus inflation, but *the belief* that we should do that and *the ability* to do it are two different things.

The other factors on which Tuccille rests his case for lower inflation are also open to debate. If the US gold reserves have not stopped the dollar's plunge in the past, why will they do so in the future? He says the economic contractions of the past few years were caused by the fact that banks overextended themselves financing the past expansions and that they are now more liquid. But bank liquidity is fickle, here today and gone tomorrow. Banks will always lend to the maximum. It is the willingness of the Federal Reserve to finance their expansion that determines their liquidity. And when the Fed provides them with funds, the money supply goes up, and so does inflation.

Finally, Tuccille believes that the money currently in savings accounts will help finance the boom to come. But just because that money is in savings doesn't mean it isn't being used. It has been loaned to others, and they have spent it. Savings accounts are not necessarily a

source of new wealth for the United States. The US money supply is a fixed pool of money, and the only effect the holders of that money can have with their decisions to save or spend is to shift demand from one sector of the economy to another. They can't alter the general level of prices.

My opinion is that Tuccille has not made an adequate case to support his predictions for the future of the economy. If the major bull cycle in the stock market is truly dependent on a more stable level of prices, which he insinuates—and as many observers, including myself, agree—then before an investor follows his advice, there must be more evidence presented. In reality, some of Tuccille's systems for using stocks might result in a profit even if we don't enter a bull cycle. His uses of other investments, however, such as bonds and annuities, would result in significant losses if his major premise is wrong.

There is always a tendency for investment advisors to claim that their particular investment system will yield high rates of return. Tuccille suggests that 15 to 25 percent is a conservative possibility. Yet it can be proved that, *on average*, this is impossible. For example, if the $24 spent for Manhattan Island in 1624 had been invested at just 10 percent, today it would be worth some $34 quadrillion, or about the GNP of the United States for the next 17,000 years. Getting high yields is far more difficult than most people imagine, and individuals who plan their lifetime investment programs around the assumption that they will consistently achieve these returns are likely to be very disappointed. And writers who foster belief in high returns are doing no service to their readers.

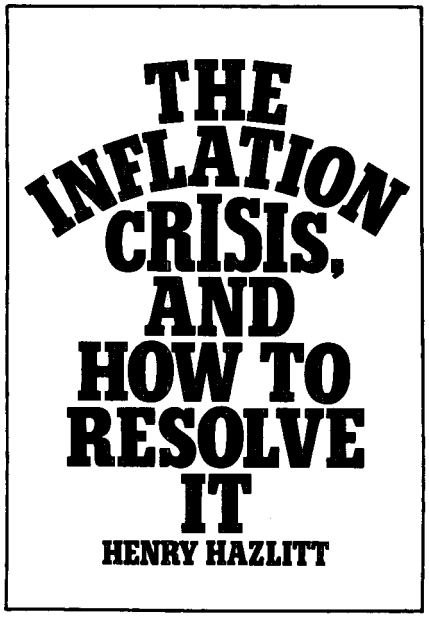
Mr. Tuccille is a bright and readable writer. While I doubt if most conservative or hard-money advocates will agree with his optimism about the future, he will certainly find a receptive audience among those who want to believe in a happier decade to come. I hope history proves him correct.

John Pugsley is the author of Common Sense Economics.

The Inflation Crisis, and How to Resolve It

By Henry Hazlitt.
New Rochelle, N.Y.: Arlington House.
1978. 192 pp. $8.95.

Reviewed by Hans Sennholz



There is a presidential ritual conducted once every four years that calls for a declaration of war on inflation. Predictably, President Carter issued a decree that is to bring stability to the US dollar. His is the eighth war on inflation by the eighth occupant of the White House since 1940. And yet the dollar has lost at least 80 percent of its purchasing power and continues to lose more every day.

In *The Inflation Crisis, and How to Resolve It* Henry Hazlitt explains why the presidential battles are lost to inflation and why it advances with ever greater force. He set out to update his 1960 primer, *What You Should Know about Inflation*, but proceeded to write a wider and deeper analysis that became a brand-new book. It is a faithful mirror reflecting the great mind of Henry Hazlitt.

We may return to this book again and again, for it never fails to instruct us. The author is an inflation-survival counselor as well as a preacher of sound economics. In a simple yet eloquent style he makes economic thought accessible and attractive to his readers. He talks to us all—not only in his discussion of the rudimentary fallacies that are responsible for the chronic inflation, but also in his sagacious analysis of the most recent variations of old errors, such as proposals for currency indexation or fixed-purchasing-power standards.

We have been living in an age of worldwide inflation that is eroding national currencies ever since the outbreak of World War II. It started, according to Hazlitt, when the belligerent governments increased their budget expenditures in order to prosecute the war. After the war, they did not return to their previous levels of expenditures, but with greatly increased tax revenues, they added all sorts of "welfare" measures. And once these measures were established, it became politically suicidal to abolish them or even merely to reduce them.

The Bretton Woods Agreement of 1944 gave explicit sanction to currency devaluations. It encouraged most countries to engage in competitive devaluations in order to promote their exports and discourage imports. In reaction to one country's devaluation, other countries would resort to "protective" devaluations, which led to a rapid succession of more than 1,000 devaluations by 1971.

But on top of all these reasons for worldwide inflation, there is the fixed idea that inflation is necessary to prevent or reduce unemployment. Lord Keynes gets too much credit—or blame—as the inventor of this myth. The US government was practicing deficit spending for six fiscal years before John Maynard Keynes published the gospel of the new economics, his *General Theory of Employment, Interest, and Money*. Keynes merely added his authority and prestige to the popularity of a pernicious doctrine.

How can we resolve the inflation crisis? We must overcome the almost universal superstition that our monetary system ought to be the prerogative of the State. This notion, according to Hazlitt, "is tantamount to agreeing that a monetary system should be made a plaything of the politicians in power." The real solution to the inflation crisis "is to get government out of the monetary sphere. And the first step we should insist on is to get our government and the courts not only to permit, but to enforce, voluntary private contracts providing for payment in gold or in terms of gold value."

Hazlitt takes issue with Prof. F. A. Hayek's recent publications that embody similar proposals but carry them further in two important respects. First, Hayek favors a demonopolization of money and competition in currency supplied by private issuers. Hazlitt harbors grave doubts about the effects of unrestricted private-note issue. He points to the great variety of private currencies that circulated in the United States during the 1830s and '40s, usually with disastrous results. Second, Hayek seems to favor a "commodity reserve," or "market basket," standard in which money would consist of "different abstract units." Hazlitt wonders how a currency can be made convertible into an index number. To him, such a standard would provide a mere token money, redeemable in nothing and convertible to nothing. Indexed money is a "dream world currency."

I find myself in full agreement with

Hazlitt on the latter point and with Hayek on the former. To the libertarian reader, the controversy is bound to make for exciting reading.

Hans Sennholz teaches economics at Grove City College.

viewpoint

(*Continued from p. 53.*)

And this is how even a mighty and despotic State gets toppled. *This* is how ideas effect social and political change—through movements, through alternative visions, through struggle. And this is a change that should especially gladden the hearts of libertarians, for it shows that a Leviathan State, even a particularly brutal and dictatorial one, *can* be vanquished—that the human spirit, the spirit of liberty, can triumph over oppression, no matter how great the odds may seem to be. But it can only be done by strategic thinking and by self-consciously building a dedicated movement.

Now notice what I am *not* saying. I am not claiming that the Khomeini republic will be particularly libertarian. There is, in fact, no reason why it should be; after all, neither Khomeini nor his aides claim to be libertarians. Judging by the ayatollah's selection of Mehdi Bazargan to be prime minister, the new republic will probably be considerably less oppressive than that of the shah (Bazargan was the head of the Iranian Society for the Defense of Liberty and Human Rights and, for his pains, had been jailed by the shah). The ayatollah's victory is also remarkable in being the first successful non-Communist revolution since the Mexican revolution of the early part of the 20th century.

But none of this is to the point. Libertarian rejoicing has nothing at all to do with whatever State replaces the shah. It celebrates the fact that a powerful, dictatorial, seemingly impregnable State *can* be and has been overthrown by the force of an idea. The Khomeini revolution vividly incarnates in the real world the abstract notion that ideas are ultimately more powerful than mere weapons, that the pen is truly mightier than the sword.

Coming Next Month:

Murder in Utah: On January 18, 1979, in northern Utah, John Singer was gunned down by ten lawmen. His crime? He insisted on educating his children himself. Gerald King assembles the facts. *Murder in Jonestown:* Before it happened, the media and Jones's supporters in high places ignored the telltale signs; after it happened, they downplayed the socialist ideology that spurred Jones on. Tom Hazlett lambastes the liberal hypocrisy. Also in this issue: Yale law professor Robert Bork challenges the prevailing hostility toward corporations and capitalism. Michael McMenamin takes a look at Robert A. Taft's foreign policy positions—and discovers great respect for individual liberty. And Charles Maling satirizes the full-employment mania with a commentary on the pressing social problem of unattached people. Plus Jim Davidson's Viewpoint, Tim Condon's Taxes, and all of REASON's regular features.

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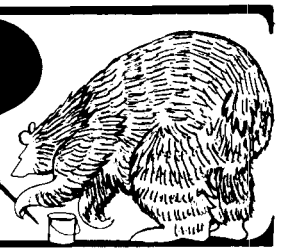

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spotlight

(*Continued from p. 54.*)

rapidly. Parents are concluding that they themselves can prepare their offspring for life's challenges more effectively than the local school marm.

The decision to do it yourself, of course, is a tough one, but NALSAS was formed to make it easier. For $1.50, for example, NALSAS provides a sample copy of articles of incorporation and bylaws; an attorney starting from scratch might charge as much as $400 or more. Dozens of new schools have utilized the NALSAS kit, reports Nagel. Similarly, NALSAS brings together alternative school operators as allies, both by spreading the word (through a newsletter) about regional conferences and by simply introducing school operators to other persons in the area regions with the same goals.

For moral support, NALSAS distributes a book Nagel wrote to recount the legal harassment suffered by the Santa Fe Community School, entitled *Cheez! Uncle Sam* (available from SFCS Publications, Box 2241, Santa Fe, NM 87501).

Increasingly, the big chore is answering correspondence from schools seeking advice on solutions to regulatory problems and compulsory attendance charges. Almost 900 persons or organizations wrote in for help in 1978; at least 2,000 letters are expected by the end of 1979.

Like many antiestablishment organizations, NALSAS faced one of its roughest battles when the IRS denied tax-exempt status. After a two-year suit, NALSAS triumphed last October when the US Tax Court ruled in their behalf.

Although Nagel has yet to lose a court fight, he concedes that it is a possibility in a case pending in Santa Fe federal court against local public school officials. The $1.7 million damage suit is part of the Santa Fe Community School's long effort to obtain federal Title I monies, which are set aside for disadvantaged children in either public or private schools.

Several of the one dozen families (enrollment has increased to 24 pupils) at SFCS doubt the suit is worth Nagel's untiring efforts, even though their own incomes fall below the poverty line.

"To me, it's a pretty strong argument against a government program if the logical justification behind it is to help people most in need economically, and those same people don't want it after they see the red tape and strings attached," Nagel says.

The willingness to suck at the federal teat is natural to Nagel, who, after all, rejected public schools originally because of their perpetuation of conventional American lifestyles. Like many of his generation, he still feels a need to help poor people. On the other hand, his tangles with various government agencies have prompted a new economic understanding of public education.

"Now I see that the economic aspect is the really crucial issue. Before, I thought alternative schools were harassed because they didn't teach traditional subjects in the traditional manner," Nagel says. "But after comparing notes with parochial school people, who do teach according to traditional curricula, it really hit me that the government is only trying to defend its monopoly in education. Then I saw the political implications that protect the economic powers that run things and prevent diversity. I came full circle."

In fact, if Nagel had his way, no education taxes would be levied. "I'd just as soon have no public funds for any schools —let the parents pay for whatever education their kids get. But I realize that doesn't go over very well yet with most people." So Nagel finds himself in the quandary faced by many activists.

"The socialists have rejected me because I believe so strongly in individual liberty, but the libertarians are suspicious because I'm trying to obtain state funds to

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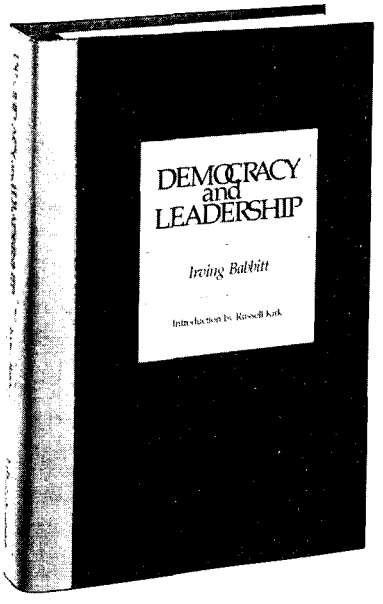

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help poor people," he says. "It's a contradiction [seeking state funds], but to me it's one of the few options available to help poor people."

At the same time, Nagel is prepared to take on the government at any juncture. The rumor in Santa Fe is that the state education establishment is considering a push for new legislation to regulate nonpublic schools. Nagel is ready.

"No doubt about it, we'll fight them in the legislature," he says. "The people at the school have discussed it, and we'll do whatever is necessary to run our school the way we want to."

—Jim Lewis

letters

(*Continued from p. 15.*)

acting, direction and production are so unique or so far above the norm that they are engrossing in spite of their dreadful themes. *It's a Wonderful Life*, with James Stewart, belongs in this category. It's one of the most evil films I know of, concerning the life of an ambitious young man who gives up everything he dreams of doing to save his small home town; it is the spiritual antithesis of *High Noon*, a smooth, secular restatement of every altruistic virtue in the book.

I might add, parenthetically and in conclusion, that 1960 seems to have been the turning-point year in movie making. Beyond that date there were made only a dribbling of what could be considered romantic films. Throughout the sixties the "social consciousness" genre was on the ascendant; the new generation of directors, actors and actresses, which eschewed competency, glamour and grooming, was beginning to replace the "old school"; and movie-going in general lost the magic, attraction and values it once had: as a refuge from the growing irrationalism of our day, as entertainment, as inspiration, as fuel, as reward. Modern commercial television is certainly no alternative, either, and neither is "public" television, though it would like to think it is. If contemporary movies seem to sparkle occasionally, what it really amounts to is the effect of sunlight on a resurfaced corpse. If anyone doubts the validity of this evaluation, a close reading of a few editions of *Variety* should cure him of the delusion that romanticism in films is reemerging. There's nothing on the board but more terror and blandness, smut, smirks, and plagiarism.

Edward Cline
Forest Hills, NY

Mr. Lagasse replies: I welcome Mr. Cline's (and anybody else's recommendations that serve to expand both my horizons and those of other readers. Many of Mr. Cline's choices I am familiar with by reputation and have looked forward to seeing (should they ever show up on television).

With regard to *The Fountainhead*—I stand by my evaluation. I certainly do not fault nor criticize Mr. Cline; I merely disagree. REASON readers are invited to see the movie and decide for themselves (as with all my selections).

Mr. Cline's remarks, concerning the decline of film romanticism starting in the 1960's, I believe are well taken, and parallel some of my own thinking in that respect. If only there could be less emphasis on "films" and "cinema," and more on "movies." In the meantime, however, thank heaven for *King Kong* and *Casablanca*.

Unseen Point

Somebody has finally gotten down to the heart of Dr. Szasz's argument. M. E. Grenander [March] says that the mind is "incorporeal." However, she passes over this point as if it were completely obvious.

In Parmenides's day it was quite easy to say what was corporeal and what was not. There were things that took up space, and there was empty space. But since then, science has discovered some things that we call "fields of force": gravitation, magnetism, electromagnetic radiation and the like. They can be assigned a position in space, they have certain attributes, they are dependent on bodies, yet they can pass through each other in varying degrees. Are they corporeal or are they not?

Is consciousness completely dependent on the physical, like fields of force are dependent on bodies? Or does it have parts and causes that are also "incorporeal" and outside the influence of the physical? If you are going to say that the mind is incorporeal, I think you need to say just what "incorporeal" is supposed to mean, and not gloss over that point.

Paul Christoffers
Frederick, MD

What Steps?

In your March issue, Mr. Tuccille, in his review of Harry Browne's new book, *New Profits from the Monetary Crisis*, states that "the effect is somewhat the same as though Ayn Rand were to mount the steps of the New York Stock Exchange and..." Mr. Tuccille will be disappointed to know that the NYSE has no steps. Such casual assumptions about details with which one is not familiar tend to arouse my skepticism regarding his qualifications to attempt to advise others.

Fred Hoevenaar
New York, NY

Energy Liberation

It seems like almost every recent issue of REASON has included at least one pronuclear, anti-solar-energy potshot, which is usually at best a half-truth...one would think that the nuclear power industry must be the last stronghold of laissez-faire capitalism. Isn't it ironic that the truth is just about the opposite? In fact, every nuclear power plant in this country, if not the whole world, is owned and operated either by a government agency, or by a coercive monopoly utility.

Furthermore, nuclear power is massively subsidized by the government. The major areas of subsidy include: research and development, insurance (Price-Anderson Act), waste processing and disposal, and that sleeping giant, plant decommissioning. There's considerable doubt whether the nuclear power industry could exist at all without these massive subsidies....

By contrast, the solar energy industry is characterized by numerous competing, unregulated small businesses, and a few larger corporations, which get very little government money. To me it seems bizarre that libertarians, as a rule, embrace the nuclear industry and despise the solar, instead of the other way around.

But there's a more important aspect to alternative sources of energy that libertarians seem to mostly overlook. I'm referring to their potential for increasing one's personal freedom. For example, the person who installs solar heating and a wind electric system in his home effectively liberates himself from any future government energy manipulations or the abuses of monopoly utilities. Nuclear power and fossil fuel energy sources, on the other hand, will always be vulnerable to government interference. Of course, the energy establishment is desperately trying to convince us that solar energy won't work, but their self-serving claims look increasingly ridiculous in the face of hundreds of existing solar-heated structures that work quite well. What they really mean, I suppose, is that solar energy won't work for them, as a subsidy machine, and in that they are quite correct.

I realize that much alternative sources of energy literature (but not all) is written by leftists and is full of anti-capitalist non-

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sense. But I should think that libertarians are intelligent enough to read selectively and not let an author's bias prevent them from getting at the facts. In a magazine dedicated to reason I would hope to see a more even-handed treatment of technologies with a great liberating potential, and less unquestioning parroting of the propaganda of monopolists who have grown fat on stolen tax money.

Jim Stumm
Kenmore, NY

Nuclear a Bomb

Trends in your March issue discussed "Nuclear Revisionism." Many questions went unanswered in this short editorial. Many public concerns were distorted. To start:

(1) You mention rem—why did you not define it? REM, Roentgen Equivalent Man, is a measure of the effect of (or damage done by) a unit of ionizing radiation on man. The point is or should be that, although this damage is always being inflicted on us by natural or traditional sources, why add to it?

(2) You completely ignored one real problem to which the nuclear industry has no advertised solution. That is the disposal of wastes. The tales of leaks at disposal sites are legion. The real damage to our environment of these current and ongoing leaks is apparent to all except the most prejudiced.

(3) Another major problem is the continued availability of fissionable fuel. This is a seldom-addressed question. All current power reactors are fission-fueled. The few experiments with fuel breeders have failed—some, perhaps, disastrously. Further, our president has ended the fuel-breeder experiments. The point: fissionable fuel will cease to be available at or before oil has become a rare commodity. What then of the expensive power reactors which you and I bought in the binge of energy managers jumping on and then actively (they had to, didn't they; it was by then their jobs) supporting the nuclear bandwagon.

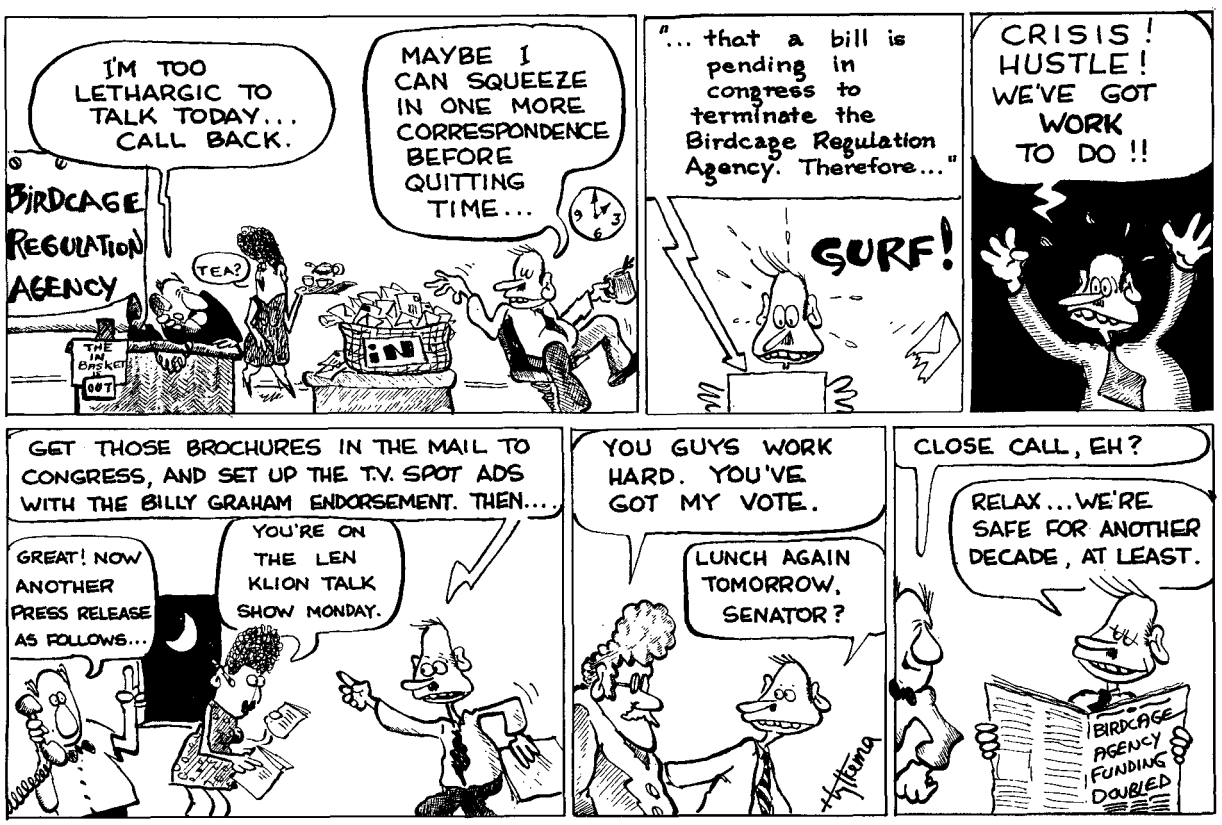
(4) Monthly energy bills paid to a state monopoly are essentially "taxes." Why does your magazine, so usually against taxes, support such ill-advised, under- or perhaps misrepresented, under-discussed and unresponsive-to-public-opinion spending of our tax monies on an industry which has proved that it (a) can't handle its own wastes, (b) adds to the public pollution, (c) doesn't know whether its fuel will be available 20 years from now, (d) has publicly disavowed the very report used to establish its own safety, (e) has repeatedly refused to become involved in energy research such as wind, solar, geothermal, etc., which might weaken its monopoly as a sole supplier of energy. I do not believe that unthinking support of a monopoly is a tenet of libertarian belief. I HOPE NOT!

F. R. Seddon
Virginia Beach, VA

Mr. Poole replies: The Trends item Mr. Seddon refers to discussed *only* the issue of radiation exposures, and its point was that normal radiation emissions from nuclear power plants are *less* than those from coal-fired plants. Like *all other* forms of power generation, nuclear power presents certain problems and risks. REASON does not support subsidies or exemption from liability for *any* form of power generation. We favor removal of existing controls and subsidies so that the market, rather than government bureaucrats and pressure groups, can make the necessary trade-offs of costs and risks. Most of the discussions of nuclear and other forms of power in REASON have been aimed at correcting the distortions of facts which have characterized much of the ongoing American debate on this subject.

rudebarbs

RANDALL K HYLKEMA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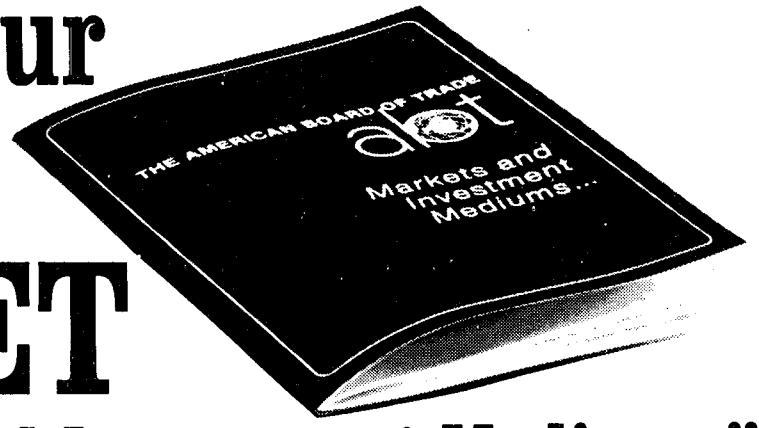

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EASTERN WASHINGTON LIBERTARIANS—Interested in forming a local LP chapter? We will soon be having a meeting in Spokane with the object of creating such a group. Anyone in the area who would be interested in attending should contact Jay Palmer at 483-3519 evenings.

PRO-LIFE? *LET US KNOW!* Libertarian pro-life caucus forming. L.P., non-L.P. members wanted. Contact: LIBERTARIANS FOR LIFE, 13424 Hathaway Drive #1, Wheaton, MD 20906, 301/460-4141. (Libertarian pro-life literature: $1.00)

CONTRIBUTIONS NEEDED for biological and cultural research in the Pacific. Please help support private, nongovernment scientific work. William March. 732 N.W. 43rd Ct., Ft. Lauderdale, FL 33309.

BOOKS

DISILLUSIONED with outspoken Conservatives who roundly denounce Carter but dare not present SPECIFIC alternative programs? You may find obvious yet provoking answers to poor education, inflation, bankrupt pension systems, Communist aggression, in CIVIL WAR or COMPROMISE. Four Feasible Measures for a Stable Society, by Abraham Kalish. $3.90. A challenging Bibliography free, SASE. Independent Books, Box 104R, Sandy Spring, MD 20860.

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DIRECTORY OF THE AMERICAN RIGHT. 1,800 listings. Current. Comprehensive. $9.95 postpaid. Editorial Research Service, Box 1832, Kansas City, MO 64141.

EMPLOYMENT

ARTIST FOR COMIC STRIP—part-time. Need partner for libertarian superhero comic; my ideas, your artistry and vice versa. Will split profits evenly. Peter Kazlouski, 4234 Chestnut St., Phila., PA 19104.

FINANCIAL

INVESTMENT ART: Guaranteed Prices. Also appraisals $5-$50. Values researched thru world's largest file bank of 2-4 million prices. Free investment guide. Art Appraisal-R, 89 Park St., Montclair, NJ 07042

MARKET VIEWS—Monthly newsletter analyzes long-term market trends, allows informed management of your mutual funds for better performance, less risk exposure. Annual subscription $25.00; sample issue, details $1.00. Heidenfelder Financial Services, P.O. Box 393, Shaw AFB, SC 29152.

BUY SILVER COINS at face value. Complete details $2.00. Satisfaction guaranteed. Bannon, Dept. R-4, P.O. Box 942, Pittsburgh, PA 15230.

FINANCING. Any amount. For any worthwhile purpose. Business, personal, educational, start ups, expansion, consolidation, inventions, venture capital, and grants. Full information $1.00. Gary S. Rea, 12012 Camelot Dr., Okla. City, OK 73120.

PERSONALS

BEAT TAXES! Stop paying withholding, Social Security, property taxes. "TAX WARS" tells how! Details 25 cents. Eden Press, Box 8410-RT, Fountain Valley, CA 92708.

SINGLE LIBERTARIAN health professional would like to meet the type of single girl who reads REASON. Box S2, REASON.

WILDERNESS RETREAT. I am buying land near a beautiful mountain wilderness in S.W. N.M. Ideal climate, Jan. av. 24 to 49 degrees, July av. 59 to 87 degrees. Sunshine 83.3% of year. "Libertarians" interested in joining me to acquire larger parcel, please inquire soon. Excellent investment, vacation retreat or full-time living. John Ball, Box 807, Hurley, NM 88043.

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COUNTRY MAN, 39, wants to build a romantic relationship with a woman who is physically fit, intellectually active and able to live with a grumpy and somewhat eccentric fellow whose IQ is 145. David King, Box 235, Lander, WY 82520.

LIBERTARIAN LAWYER — LIBERTARIAN CAUSES. Handles major and complex litigation—criminal and civil—IRS cases—regulatory cases—etc. QUALITY IS THE KEY! Former Federal Prosecutor (knows the enemy). If you have the money, I've got the time and the knowledge to FIGHT for you. What is the law?—It is truth! Write or call: SHELLY WAXMAN & ASSOCIATIONS, 30 West Washington Street, Suite 1115, Chicago, IL 60602. 312/782-1360. Service Brochure on Request.

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FREE— FIFTH AMENDMENT tax return explained. Send SASE to Rev. Clarkson, 515 Concord Ave., Anderson, SC 29621.

PUBLICATIONS

FLATULENT? Read Ben Franklin's historic, long-suppressed essay of 1780 on (believe it or not) farting. Hilarious! Suitable for framing. $3. "Franklin Essay," Box 69, Carrboro, NC 27510.

READ ABOUT SOUTH AFRICA from a libertarian viewpoint. "The Individualist" — a monthly periodical pro-free market and anti-apartheid. Write to P.O. Box 35102, Northcliff 2115, South Africa. Copies $1.50 each, subscription rate $12.00 per year.

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THE CLASSIFIED AD DEADLINE FOR THE AUGUST ISSUE IS JUNE 1st.

No sect and no political party has believed that it could afford to forgo advancing its cause by appealing to men's senses. Rhetorical bombast, music and song resound, banners wave, flowers and colors serve as symbols, and the leaders seek to attach their followers to their own person. [Classical] liberalism has nothing to do with all this. It has no party flower and no party color, no party song and no party idols, no symbols and no slogans. It has the substance and the arguments. These must lead it to victory.

—Ludwig von Mises,
The Free and Prosperous Commonwealth

HOW TO HIDE YOUR MONEY

"Privacy from government is perhaps the most important thing in life right now." —Harry D. Schultz

Take this confidential test. Find out how vulnerable you are to snooping government agents, jealous relatives and professional thieves. The results may surprise you.

Check if "Yes"

- ☐ If people were to judge you by your car or home, would you be considered rich?
- ☐ Do you usually give a salesperson your complete address and phone number?
- ☐ If asked, would you reveal to an associate how much money you make?
- ☐ Are you receiving unwanted mailings without knowing who's selling your name?
- ☐ If you borrow money from the bank, do you have to disclose what the money is for?
- ☐ Do you buy things in person or by mail that you wouldn't want others to know about?
- ☐ Has your tax return ever been audited?
- ☐ Is it possible in the future that you will become involved in major litigation—divorce, malpractice, bankruptcy, or other expensive lawsuits?
- ☐ Has your bank account or other financial records ever been examined by government agents or private investigators?
- ☐ Do you regard yourself as a maverick or non-conformist—politically, religiously, or socially?

Slightly Vulnerable (Yes 0 to 2 times)	There is little for you to worry about. You have kept your profile low. Congratulations!
Vulnerable (Yes 3 to 6 times)	Your financial affairs are too well known. You need to take action now to lower your profile.
Highly Vulnerable (Yes 7 to 10 times)	Your life is an open book. Too much is known about your affairs. Unless you take immediate steps, you can expect to be a target of government and commercial surveillance.

Are you a Victim of the Bare-all Society?

Today we live in a brash, uninhibited bare-all society. Government, corporations, and the press intrude on every aspect of our lives. Nothing is too sacred to be discussed openly in front of millions, whether it be the intimate details of a divorce, a financial scandal, a sexual affair, or a family tragedy.

Hidden cameras monitor your every move in banks, department stores, supermarkets, and airports. Your baggage is searched when you travel. Your social security number is linked by computer to massive files (over 50 files are kept on every American). When you apply for credit or a job, your financial status is laid bare by the local credit bureau's computer.

Every time you write out a check, or use your credit card, records are made—and are open to the scrutiny of the government. Commercial enterprises are compiling data on you, adding your name to huge mailing lists, without your permission.

ACT NOW TO PRESERVE YOUR PRIVACY—BEFORE IT'S TOO LATE!

CHAPTER 1. WHAT HAVE YOU GOT TO HIDE? Five important reasons why you need privacy in your financial affairs. A list of all records kept on you. The computer and electronic threat to your privacy. The secret life of Howard Hughes.

CHAPTER 2. KEEPING YOUR BANK ACCOUNT CONFIDENTIAL. Why your bank account is no longer secret, and how investigators can get a *distorted* view of your financial affairs. Simple ways to preserve bank privacy. Legal and illegal uses of a fictitious name. What it means when the government examines your bank records, and how to stop it. How to raise cash and other "bearer" instruments, safely and anonymously.

CHAPTER 3. YOUR SECRET FOREIGN BANK ACCOUNT. How to use banks in Mexico, Canada, Switzerland. The truth about Swiss bank secrecy. The famous numbered account—why 15% of the Swiss have them! How tax havens can work in your favor. How to send money abroad undetected. How to move gold in and out of the country confidentially.

CHAPTER 4. HOW TO BEAT THE FOREIGN REPORTING REQUIREMENTS. Five ways to legally avoid the Treasury reporting requirements of foreign accounts. How a major criminal laundered money through secret foreign bank accounts, and how he was caught. The cheapest, and most private, way to buy and sell gold. Copies of the new reporting forms.

CHAPTER 5. THE PRIVATE INVESTOR. A list of reportable and non-reportable investments. How private is your brokerage account? How to invest around the world anonymously—in real estate, stocks, art, and gold. How to buy "bearer bonds" from the U.S. government! The coin market: a discreet, unhampered market in privacy. Diamonds and stamps—the best way to hide money? Warnings about your privacy when dealing with your investment or tax advisors.

CHAPTER 6. PROTECTING YOUR CORRESPONDENCE. How secret is an unlisted telephone number? Advantages of post office boxes, mail drops, and secret correspondence files held abroad. How to get off mailing lists. How to know if your telephone is bugged.

CHAPTER 7. TRAVELING INCOGNITO. Three ways to avoid customs reporting requirements. The truth about those custom computers at ports of entry. Should you have a second passport? The advantages and disadvantages of becoming an expatriate. Copies of the customs reporting forms.

CHAPTER 8. THE CONFIDENTIAL LOAN. Three ways to increase confidentiality in getting a loan. How to raise thousands of dollars overnight confidentially, completely unsecured, without ever sitting down with a loan officer! Your rights to examine your credit bureau records—and how to correct errors.

CHAPTER 9. THE PRIVATE COMPANY. Commercial privacy, corporate spying, and the truth about Dun & Bradstreet reports. How to set up your own anonymous corporation. Advantages of closely held corporations, and why you should avoid going public. Why the Freedom of Information Act is harmful to business. An inexpensive way to resolve conflicts between companies behind closed doors.

CHAPTER 10. SAFEKEEPING YOUR VALUABLES. How safe is your safe deposit box? How to keep your safe deposit box from being inspected by tax authorities at time of death. Foreign boxes in Mexico, Canada, the Bahamas, Switzerland—their "secret" advantage. Private vaults, the best in home safes and how to build secret compartments in your home.

CHAPTER 11. PRIVACY AND THE TAXMAN. Your rights in criminal and civil audits, written by a tax attorney. How to maximize privacy on your tax return. Why you need a tax attorney instead of a tax advisor. Warning against Fifth Amendment returns. Beware of IRS telephone surveillance.

CHAPTER 12. THE PRIVATE WILL. The secret to avoiding the heavy costs of probate as well as publicity when settling your estate.

CHAPTER 13. 24 STEPS TO FINANCIAL PRIVACY. A summary chapter offering you 24 steps you can take to insure your privacy in financial affairs in a matter of months!

CHAPTER 14. UPDATE ON PRIVACY. Names and addresses of publications, books, and advisors to help you learn more about financial privacy.

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Dr. Callahan is in the full time private practice of individual and group psychotherapy and romantic relationship counseling in Los Angeles. He was Associate Professor and Co-ordinator of Psychological Services and Research at Eastern Michigan University from 1956 to 1960. He is a member of the following professional organizations, American Academy of Psychotherapists, Society for the Scientific Study of Sex, American Association of Marriage and Family Therapists, Orthomolecular Medical Society, and the Academy of Orthomolecular Psychiatry. He has been President of the Michigan Society of School Psychologists and President of the American Academy of Psychologists in Marital and Family Therapy.

Dr. Callahan was one of the original members of the National Advisory Board of Dr. Albert Ellis' Institute of Rational Living and was the first director of The Detroit Institute of Rational Living. He participated on the faculty in the first workshops given on Rational-Emotive Therapy. Before moving to New York to study Objectivism, he organized and produced the first workshop on Objectivist Psychotherapy. Later he participated as faculty on the subsequent two workshops on Objectivist Psychotherapy.

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But the gold coin pictured above *has* increased in value by this astounding percentage. If you had bought this 1932 $10 Indian in 1973, you would have paid $86. Today it's worth $710—a 725% increase.

Of course, not every rare coin appreciates in value so spectacularly. But other carefully selected rare coins have shown equally impressive gains. The 1894-P Morgan Dollar has gone from $650 in 1977 to $1700 today—an increase of 162%. The 1934-D Oregon Trail Commemorative: from $46 in 1976 to $106.50—a 132% increase. And the 1924 Peace Dollar: from $9 last year to $19.50—a 115% rise.

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How can you profit from these remarkable price increases? *Walter Perschke, publisher of the* ***NUMISCO LETTER****, recommended buying all these coins long before they began skyrocketing in price.* Right now, in the **NUMISCO LETTER,** Walter is recommending other coins he's convinced have similar profit potential for the future.

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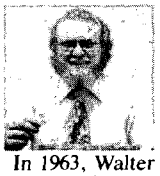
Who Is Walter Perschke?



The **NUMISCO LETTER** is edited and published by Walter Perschke, one of America's top coin investment experts.

In 1963, Walter was a Chicago schoolteacher. With several fellow teachers, he formed an investment club and bought silver proof sets. Within three months, he and his friends had tripled their money. That was the beginning of Walter Perschke's remarkable investment career—and the *end* of his teaching career!

Besides editing and publishing the **NUMISCO LETTER,** Walter is president of Numisco, Inc., one of America's oldest and largest coin brokerages. He heads the National Numismatic Network, Ltd., a unique teletype communication and market system linking America's coin dealers. And he is a member of the MidAmerica Commodity Exchange and serves as consultant to a Swiss Bank.

A frequent speaker at investment conferences and seminars, Walter has written articles for *Barron's, Inflation Survival Letter, Reason* and *Investment Review*. His investment opinions have been quoted by such publications as *The Wall Street Journal, Time, Newsweek, Money* and *The Journal of Commerce*. He is a contributor to the two definitive coin references, the *Guidebook* and *Handbook of United States Coins*. For the past four years, he has had his own weekly TV show, "Ask an Expert" on WCIU, Chicago's financial station.

One more thing you should know about Walter: he invests his own money in the coins he recommends to his subscribers in the **NUMISCO LETTER.** Four years ago, his profits from these investments were enough for him to buy a classic Rolls Royce—which he owns and drives today.

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